LOOKING AHEAD TO EARLY 1945 ★

Bind

Soc

The MAGAZINE of WALL STREET

and BUSINESS ANALYST

DECEMBER 23, 1944

50 CENTS

THE MAGAZINE OF WALL STREET
and BUSINESS ANALYST

Member of Audit Bureau of Circulations

Volume 75, No. 6 December 23, 1944

The Ticker Publishing Company is affiliated by common ownership with the Investment Management Service and with no other organization. It publishes The Magazine of Wall Street and Business Analyst, issued bi-weekly; The Investors Guide, Adjustable Stock Ratings, issued monthly; and The Investment and Business Forecast, issued weekly. Neither the Ticker Publishing Company nor any affiliated service or publication has anything for sale but information and advice. No securities or funds are handled under any circumstances for any client or subscriber.

CONTENTS

Cover photo by Gendreau

SUBSCRIPTION PRICE—$10.00 a year in advance in the United States and its possessions and Pan-America. Canadian and Foreign Postage, $1.00 additional per year. Please send International Money Order or United States Currency.

TO CHANGE ADDRESS—Write us your name and old address in full, new address in full and get notice to us three weeks before you desire magazine sent to the new address.

EUROPEAN REPRESENTATIVES—International News Co., Ltd., Breams Bldg., London, E. C. 4, England.

Cable Address—Tickerpub

DECE

Season's Greetings

THIS season of the year has a way of bringing us all closer together — because we take time out of our busy lives to think about and remember each other.

But, today, we are closer than ever because of our common hopes and sacrifices. We are one, too, in the determination to win this war — totally — and to establish the kind of world in which we would like to have our children live.

The cost has been great indeed so that, from the struggle between the forces of light and darkness, a better world must emerge. But it will depend upon us —upon you and me—on how wisely we use what we have learned.

This great holocaust has taught us many things. The greatest of these is the truth that love rather than hate is the real foundation for happiness—for success—for peace on earth. That time and space have been eliminated. That "Love Thy Neighbor As Thyself" is not a mere truism but a practical essential for creating that sympathetic understanding which brings goodwill to men.

By building these truths into the world of tomorrow, the miracle of real civilization will have been accomplished. This is the precious prize in today's great adventure.

And, what is more, we each have the power of sharing in its creation, and our individual efforts piled one on another can be a mighty cornerstone in the foundation for a new and better life.

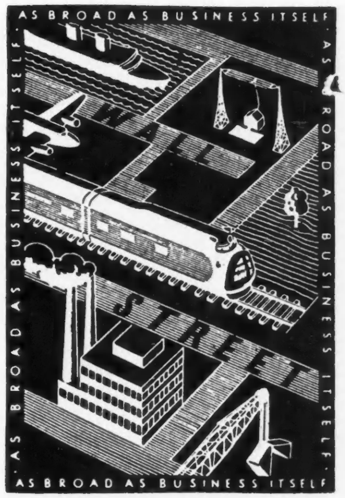
To you—our friends and subscribers with whom we have a great and sympathetic bond—with all our hearts we wish you and yours well in the year ahead.

C. G. Wyckoff

Publisher
THE MAGAZINE OF WALL STREET

THE MAGAZINE OF WALL STREET

C. G. Wyckoff, *Publisher* E. A. Krauss, *Managing Editor*



The Trend of Events

REVIVAL OF STOCK SPLIT-UPS . . . The current series of stock split-ups, announced or contemplated, brings to mind the wave of split-ups in the early Twenties but it is difficult to assume that a movement of similar extent is immediately impending. What may happen after the war, or even when reconversion begins in earnest, is another story; granting tax relief, smooth reconversion and promising business prospects, a good many companies then may probably want to capitalize their wartime increment in resources. But it seems reasonable to expect that such decisions will be deferred until restoration of peace if not clarification of the outlook beyond. Of course there will always be exceptions.

Recent strength and activity of stocks to be split once more proves that the custom of revamping capital structures along such lines does a great deal to enliven speculative interest as distinct from investment demand. The genuine investor doesn't particularly care for stock splits since essentially they add nothing to his equity though moderate, sometimes temporary enhancement of its value is a frequent feature. His income return is boosted only if the regular dividend rate is retained on the new stock or if the new rate, on the larger number of shares, adds up to more than the old. Then of course he stands to benefit. A case in point is the recently announced three-for-one split of Loew's common and placement of the new stock on the old $1.50 dividend basis.

In the majority of split-ups thus far come to notice, the primary motive was adjustment of capital structures to prospective requirements of expanding postwar business. The need for more capital in growing industries such as airlines is patent but many well established companies with exceptional postwar business potentials may in the future likewise become candidates for this type of capital adjustment or expansion. However, there may be other reasons. When stock prices have risen considerably, managements often resort to split-ups to bring prices down to a lower, more desirable range with greater appeal for the average investor. From the management's viewpoint, there is much to say in favor of this; the desirability of broader stock ownership is increasingly recognized. This appears to have been a factor in the case of Loew's. No doubt an important incidental consideration was that it permits a sizable boost in total dividend disbursements without raising the dividend rate. Withal, stock splits form an interesting chapter; current doings and future possibilities will be discussed in greater detail in our next issue. We recommend this informative article to our readers.

PROBLEMS OF SMALL BUSINESS . . . Many small companies now heavily engaged in war work are in such a precarious financial position that they may succumb to relatively minor jolts resulting from cutbacks, renegotiation, termination and discounting of inventory, even before they are confronted with the difficult problems of

Business, Financial *and* Investment Counselors : 1907—*"Over Thirty-Seven Years of Service"*—1944

financing reconversion to the production and marketing of peace-time goods. This is the situation revealed by a detailed analysis of the balance sheets of 125 small war industries just completed by the Research Staff of the National Industrial Conference Board.

At the end of 1943, according to the analysis, these small corporations possessed working capital sufficient only to cover 17.2% of current liabilities while twenty-five of them with net worth below $100,000 had working capital of only 7.3% of current liabilities. Moreover, the inventory factor looms large. For the same group of twenty-five very small concerns, working capital amounted to only 13.4% of inventory, so that if only that small part of their current assets tied up in inventory could not be realized or became frozen, their working capital would disappear altogether. Working capital of the 125 concerns studied amounts, on the average, to 32.9% of inventory.

This unpromising picture confirms what has long been suspected. Deterioration of the working capital position of small business has been assumed but its actual extent was largely obscured because of lack of accurate data. The Conference Board's study thus serves as a valuable contribution toward filling that void.

The need for giving aid to these companies which in their aggregate did so much to make our war production effort a success is undeniable. While conditions may vary considerably among various concerns, their margin of safety is conceded to be slim in the majority of cases. Because small corporations do not have easy access to the capital market, the sale of stock or bonds would be of limited help. Only constructive Government policies in guiding small business back to normal activities can conceivably be of real help. Fortunately, the attention given to the problem in and out of Congress, and especially in Administration quarters, justifies hope that adequate solutions will be found. It is a paramount need if small business is to make its contribution to full postwar employment through greater production.

COTTON'S FUTURE . . . At last, the cotton problem is being tackled, however tentatively, in a common sense manner after years of ineffective expedients and grandiose spending which have brought us no nearer to a solution. It is none too soon. The latest proposal, brought forward by Secretary of Agriculture Wickard, comes closest to promising a real solution, hence deserves more than passing attention. We hope it will be seriously considered. At recent hearings of the House Agriculture subcommittee on postwar planning, members were "jolted" by Secretary Wickard's declaration that "prospect of marketing at a satisfactory price all the cotton this country is capable of producing is doubtful . . . that present supporting measures are nothing more than temporary expedients." This of course is a gross understatement. Prospects of selling our cotton crops at satisfactory prices after the war, unless heavily subsidized, are virtually nil and patently, we cannot go on forever wasting millions of taxpayers' money on subsidies.

Boiled down, Wickard's plan calls for the much advocated industrialization of the South and the shifting of less fertile and hilly areas unsuited to mechanized cotton growing to other production. To cushion this transition which naturally would severely affect high-cost producers, Government payments are advocated for a stated period, on a declining scale, to finance such cotton growers in the change-over to other production. Back of the proposal is the conviction that small growers will never be able to compete with "inevitable" mechanization, that adjustments along such lines would lead to lower growing costs and eventually result in a competitive place for our cotton in the world markets.

Past experience furnishes ample proof of the validity of such reasoning. Secretary Wickard's plan may prove costly but so were former and present subsidy policies. The new approach at least affords hope of ultimate solution of the cotton dilemma; let's hope it will survive, in workable fashion, the political struggle it is inevitably headed for.

ON POSTWAR SPENDING . . . Reserve Board Chairman Eccles' recently reported program for "orderly spending" by the public immediately after the war is undoubtedly meritorious but, humans being what they are, it strikes us as just a mite too perfectionist. Mr. Eccles would have the public hold on to its Government bonds and confine its spending to current income and for goods that are in sufficient supply. In this manner overexpansion of industry and price inflation would be avoided,

This is undoubtedly true. It would be far preferable if postwar demand would be supplied by an orderly process of conservative spending instead of a buying spree that would quickly run its course. To assure the former, officials are now discussing a selective lifting of price and consumer credit controls after the war; controls would initially be removed only on abundant items but retained on scarce goods until they are in adequate supply.

This fear of inflationary spending contrasts strangely with recently professed deflationary fears, allegedly at bottom of the Government's yielding attitude in the matter of wage increases for organized workers. Also it poses the question: Will people accept such controls when the war is over or will they fight them, evade them and ultimately defeat them? Will not retention of controls in itself retard the process of meeting consumer demand and stifle the initiative needed to broaden our peace-time production base and provide full employment?

It seems to us that we must be reconciled to have a certain amount of disorderly spending in the early postwar days just as there is a good deal of extravagant spending in these critical war days. War-time rationing of necessary goods when there is not enough to go around is one thing. Carrying price and credit controls into the postwar era is quite another thing. Considering existing huge savings, credit controls alone could hardly constitute an effective barrier to large scale spending. Continued price controls would merely intensify the black market evil and invite endless trouble.

There is such a thing as setting our sights too high and banking too heavily on the merits and effectiveness of controls. The chances are that more trouble may come from too much than too little control when it comes to individual savings and their use. Restrictions in this field may well unleash trends and reactions both unexpected and undesirable while promise of earliest restoration of free play of individual action might be far more conducive to a common sense attitude in public spending

As I See It!

BY CHARLES BENEDICT

LABOR'S OPPORTUNITY AND RESPONSIBILITY

The International Labor Conference held in London in early December laid plans for the linking of the various labor organizations throughout the world in a way that would give labor the greatest power it has ever known.

In discussing the objectives at a press conference on December 5th, Sidney Hillman envisioned an organization that would carry on internationally the program that had been initiated during the elections in the United States. He declared that the success he had achieved established the nucleus of a great mass movement in favor of international labor cooperation.

This momentous decision, which would have a far-reaching effect on the world political and economic scene, has received very little publicity in this country.

And yet, the situation is fraught with danger because, while Mr. Hillman is himself a constructive leader, there are other equally important men in labor who do not see eye to eye with him but lean far toward the left. Therefore, if they were to use this newly proposed international organization as a labor pressure group, it would have dire and destructive possibilities.

At the moment, there is a great struggle going on between the two dominant factions in the labor movement in our own country, so that at times the pot seems to be boiling over. And yet there has always been sufficient realism to strike a balance. It is interesting to note in this connection that the American Federation of Labor and the Railway Brotherhood declined to cooperate in this world trade union conference.

Their refusal to participate was on the ground that the Soviet labor unions were not free agents but representatives of the Soviet Government and, therefore, their actions were subject to government domination and control. And so long as labor could not function all over the world as a free body, it was considered impractical to enter into negotiations.

In England, as well as in every other country in Europe, there is a titanic struggle for control going on between the conservatives and the middle-roaders on the one hand and the leftists on the other. This radical element is strongly organized and has played an important part in the underground movements throughout Europe, and is likely to acquire a dominant position if this fratricidal war being waged among the various peoples continues to a point of destroying that hairline between some kind of an existence and absolute destitution.

It is well to remember that the radicals represent only a minority of the people in every country; yet they are so strongly organized that they appear to represent majority opinion with a preponderance of support—which is not true.

The strength of this radical group in labor is startlingly evident in Britain where it violently castigated Winston Churchill for his policy in Greece and Italy while at the same time applauding Russia's "expansionist" policy from the Baltic to the Black Sea. Particularly interesting is the support the radicals have received in the English press, leading one to believe that certain groups in Britain are again playing with fire as they did in the twenties after Hitler rose to power.

It would be a great pity if labor were led astray by charlatan leadership—by men seeking power at its expense and subsequently, as in all the totalitarian countries, using these dictatorial powers to destroy unionism.

It would be well if the more moderate leaders would prevail so that the pendulum would not swing too far in either direction. Historically, extremism has always spelled disaster.

This is not the first time that brotherhoods among workmen and artisans have risen to great power. The Guilds of the Middle Ages exercised such a despotic and monopolistic rule that they finally destroyed themselves. As we have seen throughout the centuries, monopolism has been its own Frankenstein.

Who would deny that for a long time past the labor movement has reached the status of a monopoly? In fact, it is "the pot calling the kettle black" when labor refers to monopolistic tendencies in big industries.

When greed for power enters, realism always departs! It is a lesson that labor could well take to heart.

Today labor has a wonderful opportunity if it sticks to the middle road. And, it is only common sense to do so because our economy with its large productive capacity is geared to huge markets which call for a high standard of living among the workers of this country.

Free enterprise in the United States has shown the greatest imagination and genius. It has demonstrated its worth in this war, so that *(Please turn to page 328)*

Press Association Photo

Representatives of British, American and Russian Trade Unions meeting at Transport House, London, preparing the Agenda for the forthcoming World Trade Union to be held next February. Photo shows Sir Walter Citrine, British delegate, addressing the meeting. Sidney Hillman, American delegate, is seated in the center

Market Prospect for Early 1945

Buying induced by recent strength will take the market higher, but we expect a move moderate and selective rather than broad and sustained. Hence great care should be taken in individual stock appraisals and reserve funds should be increased if and as attractive profits become available.

BY A. T. MILLER

Under leadership of the railroad stocks, the protracted trading range which had stymied the market since last July was broken by decisive advance during the fortnight since our last previous analysis was written. With a large expansion in volume of transactions the Dow industrial and rail averages both attained new cyclical highs. So did this publication's composite index of 283 stocks.

Thus, a new "leg" of the major uptrend presumably has been inaugurated and the "reconfirmed" bull market will soon round out the thirty-second month of its life, having begun in late April of 1942. In duration, although by no means in average points yet gained, it begins to rank—along with the "New Era" fantasy of the 1920's and the "New Deal" cycle of 1933-1937—as one of the longest bull markets on record.

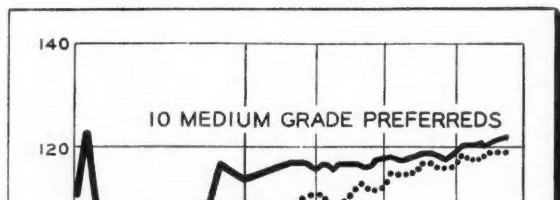
The revised economic projection—itself more than a bit conjectural—which is now offered as supporting reason for the new phase of advance apparently involves a somewhat oblique line of thought. It is generally accepted as probable that the war will last much longer than had previously been expected; and it is believed that the reconversion let-down will be less severe than had been feared because of the Army's increased estimates of its production needs for continuing war with Japan after Germany has been beaten, although it is officially stated that the latter planning is "tentative," which means that, depending on events which no one can predict, war output schedules conceivably may be scaled down a few months hence as promptly—but with no such fanfare of publicity—as they have recently been scaled up.

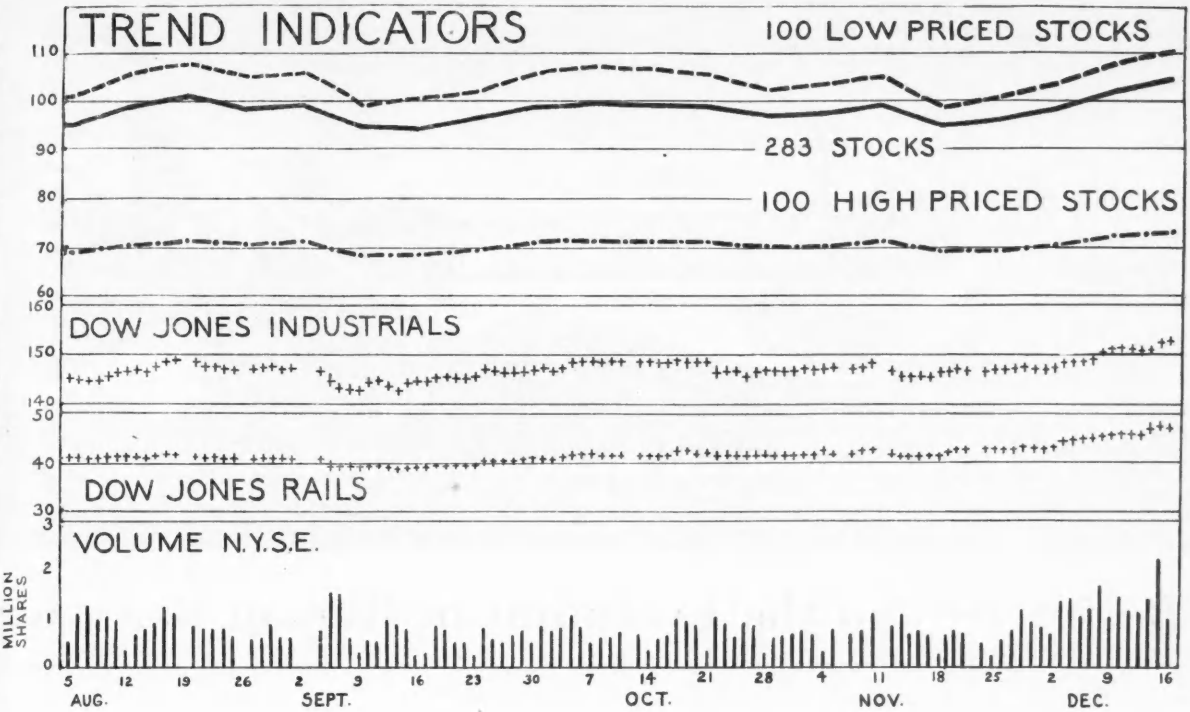
It is agreed that war is fundamentally bearish, that peace is bullish. People do not buy wartime earnings and dividends just because they have surplus funds. There must be a confidence—or hope—in the future that can be rationalized and discounted. What is it? The answer is very clear. The positive "theme" of this wartime bull market—as distinct from the permissive factor of expanded money supply—has long been, and still is, anticipated post-war prosperity and tax reduction. The more general and abstract this hope is, the more readily can it be discounted. During much of the long period since the summer of 1943, the market has found it difficult to exploit this "theme" aggressively because the concrete thought of the actual end of the war—and of reconversion adjustments—interfered.

But now it is possible to get back on a pleasantly abstract basis because peace in Europe and reconversion apparently are to be postponed for an indefinite and perhaps lengthy time. If this is so, of course the post-war prosperity and the tax reduction will be proportionately postponed, but in the present mood of the market that is evidently less important than the extended period of grace granted us on the down-to-earth proposition of transitional deflation.

As to how long this mood may last, the writer must frankly profess considerable doubt. From its start this war has produced many surprises. In "forecasting" its course and its economic repercussions the opinions of the public, of the armchair experts and of official Washington have proved very far from infallible. Can one now say with assurance that certainty has replaced uncertainty? On the contrary, it seems to us that the shape of things to come during the remaining term of this war and during the readjustment period is not significantly more clear now than it was three months or six months ago. It is still subject to unforeseeable change. Indeed, unpredictable and sudden change is itself one of the few certainties of war.

We therefore feel that sensible investors should not depart from a prudent, patient and discriminating conservatism merely because the averages have "gone





through" previous highs. Such "signals," whether under Dow theory or any other similarly mechanistic principles of market operations, merely signal the obvious fact of the *present,* which is that the trend is up. They can not —and do not profess—to predict the future. A new phase of advance thus "signalled" may be short or protracted, broad in terms of average points gained or quite limited.

Since it starts from a far from low level for most standard stocks and a quite high level for the majority of more speculative stocks, our opinion is that it is likely to be on the moderate side in average gain above former highs and that it will remain selective—roughly similar in these respects to last summer's movement which carried the Dow industrial average about 5 points above the previous high of 1943 and which extended the 1943 high in the rail average by about 4½ points.

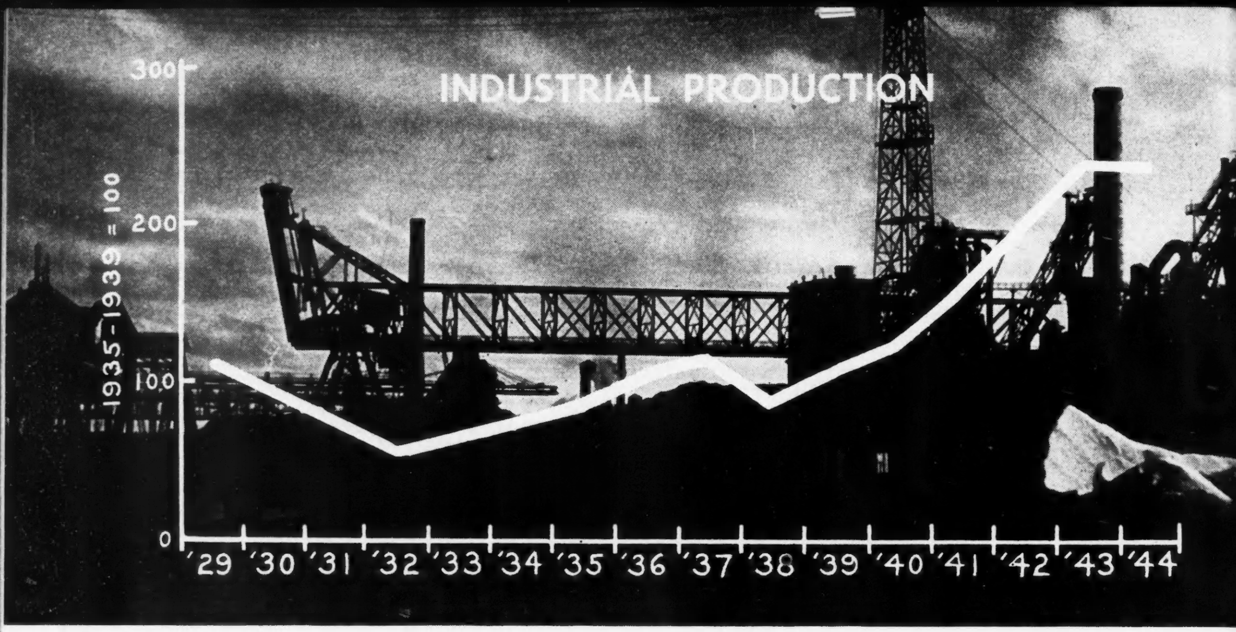
Precise prediction is impossible, since common stocks are the only things in which a sharp markup in prices —which in common sense means that you get proportionately less value for your money—attracts, rather than repels, the uncanny crowd. If the proposition were to invest any sizable sum of money in a private business enterprise, almost any prospective buyer would have acumen enough to examine the average earnings over a period of years, the variation in earnings between good, bad and medium years, the balance sheet, the reputation of the managers, the volume prospects, etc. Yet otherwise sensible people in all too many instances buy publicly listed stocks not after sober analysis of individual values but primarily on the basis of their opinion or guess--or some interested party's tip—as to the "trend." One should prudently bear in mind that people who buy and sell stocks on "trend signals" are really engaged in the paradoxical undertaking of trying to "follow along with the crowd" and yet beat the other fellow to it in getting in and getting out of the market.

For the great majority of investors the analytical approach, centering on individual stock values, will necessarily work out best year in and year out—to which end we aim the selective appraisals presented elsewhere in each issue of this publication.

Any "average" conceals more than it reveals. For instance, on the recent day of greatest volume, with both industrial and rail averages up sharply to new highs, less than one stock out of each nine equities listed on the New York Stock Exchange made new highs. For industrials alone it was but slightly more than one stock out of ten. Again, at recent highs 18 out of the 30 Dow-Jones industrials were either under their highs of July 1943 or less than 1 point above them; 20 were under their highs of July 1944 or only a fraction higher. So far just 6 out of the 30 have been chiefly responsible for carrying the average to a new high: Westinghouse, Loew's, Sears, Allied Chemical, Eastman and Johns-Manville.

Despite exceptional strength in the averages, only 16 out of 43 stock groups made new highs during the past fortnight, and 11 groups declined or failed to gain last week. Groups substantially under previous highs include farm equipments, aircraft, chemicals, communication, containers, finance companies, food brands, furniture, gold mining and tobaccos.

In ratio to expanding volume, the total of points gained by upside stocks is tending to shrink, indicating increasing profit taking. This need not preclude advance to 155, or even 160, in the industrial average but it checks with our concept of a limited and selective move which will make a counter movement downward more, rather than less, likely before we have gone many weeks into the new year.—Monday, December 18.



Business—and the Evolution in Human Behavior

BY E. A. KRAUSS

UNDER the impact of modern business, we are constantly though often unconsciously breaking old social routines. In many of its procedures, business is a destroyer of the old, a creator of new social values and habits.

After the war, there will be many new products and new services, and new products or services can be disorganizing factors. They usually are. Witness what the automobile, the radio, the motion picture or new household conveniences in the past two decades have done to change and remold our habits and routines, with enormous social and economic, even political repercussions. Think of the changes in human behavior they brought about.

Now we are confronted with perhaps equally if not more incisive changes arising from introduction of such innovations as television, electronics, a host of synthetics in numerous fields, prefabricated housing, fast air transportation and the prospect of world-wide air travel. What new behaviors will they bring, what deep-seated changes both social and economic will they cause?

A new high standard of living as envisaged in the postwar era may in itself become a disorganizing factor, may create unsettling currents in our social and economic life. What about the effect of increased leisure for the worker under a further shortening of the work week? What new consumption trends, and behavior trends, will it entail?

While looking far ahead, all these are immensely practical questions. No far-sighted investor can afford to ignore them, or minimize their importance. To him, they may become determinants of success or failure of his investment policy. To prove this beyond the shadow of a doubt, we need only consider the past.

In contemplating the social and economic consequences of our future streamlined economy, it is profitable to view in perspective our past industrial revolutions and resultant changes in human society. Take the power revolution, substituting steam for water power, stimulating mechanical invention, enlarging the factory system, making possible railroads and steamships and radically changing the relationship of agriculture to the industrial world. It created a marked division of labor among nations and within nations, increased points of contacts and stimulated the growth of powerful empires.

The advent of the internal combustion engine brought small mobile power and gave new freedom of movement to the individual, still further improvement in agriculture—even to the point of overproduction; it completely changed the highway systems of the world and forms of locomotion.

On this power revolution was superimposed the electrical revolution which facilitated the growth of steam power plants, reestablished commercial usefulness of water power, made possible wide distribution of electric energy and further affected agriculture by stimulating great irrigation projects. Besides lighting the world, it gave us instantaneous world-wide communication through the telegraph, the telephone and latterly, the radio.

Next came the chemical revolution, slow in its initial development but spectacular in its recent and current results. In America, the chemical revolution, barely 25 years old, is introducing new processes and products into our industrial structure on a scale which may soon enlarge the material options of mankind faster than any other development.

The *management* revolution had a definite bearing on these revolutions of science, for without the skill and daring of the entrepreneur and manager, and the liberal support of businessmen and industry, applied science would have been negligible.

We all know the enormous impact of these industrial revolutions on human behavior. In more modern times, we have made "change" the law of the world; thus

change goes on continuously but with it arise problems in the social field with which we must cope lest change spells disorganization.

The scientific revolutions in their social effects went far beyond the mere factory system. They accelerated the movement of farms to the West, they enthroned King Cotton in the South just as they now threaten to destroy him. They also separated the farmer from his market, made an uncertain business out of his solid way of living and tangled him in the complex skein of international trade. By emphasis of growing cotton in the South, they kept industry out of the South.

Need for Balance

Business is a constant builder of new ways but the central problem is one of balance. Too rapid change destroys our foundations; too slow change makes for a stodgy civilization. New routines must replace those that fall, for social efficiency requires balance. Thus business at all times must provide a central core around which social stability can ultimately be reestablished. It will be one of its most important future tasks, doubly important after the war when the need for social and economic stability will be pressing indeed.

There are many ways in which business has operated to destroy social routines and the constant pressure for *change* contributed much to that. Too many changes have come upon us too rapidly. If some of these could have been slowed down, the results might have been different; the time factor in change is after all of cardinal importance. All of it, however, is part of the endless dilemma of stability and progress. For in an organized society, economics is not enough. We must depend for our equilibrium primarily on social routines, and these, we must admit, have been badly disturbed by the rapid march of progress. The peace of mind which characterized the late 19th century has disappeared; the causes were mainly economic thus the remedies must be economic if peace of mind is to be regained. But economic devices alone will not solve our social problems.

The fast rate at which science is presently advancing suggests that opportunities for material advancement are greater than ever but social forces must keep up with it. 1929 marked the end of an era. The panic then not only signified a major economic collapse but for the first time in our history was followed by a collapse of national morale. Since then, most of our difficulties, up to the war, were more intimately connected with lack of confidence than with purely economic problems.

Thus in planning for postwar, we need widespread comprehension that while we have the means for producing undreamed of material progress, we cannot have this progress overnight without dangerously undermining our established ways of living. On the recognition of this problem and the wisdom with which it is handled may depend the future of business and its relative influence in the community, and perhaps the future of our society as well. Fortunately there are many signs that business is increasingly aware of this need and of its responsibilities; in the absence of such assurances, the future would be uncertain indeed. Business and industry may well ask themselves whether society can stand too rapid progress, too rapid change, growing from disproportionate attention to modern science. If they conclude that we as an organized society cannot stand it, then business certainly cannot afford it.

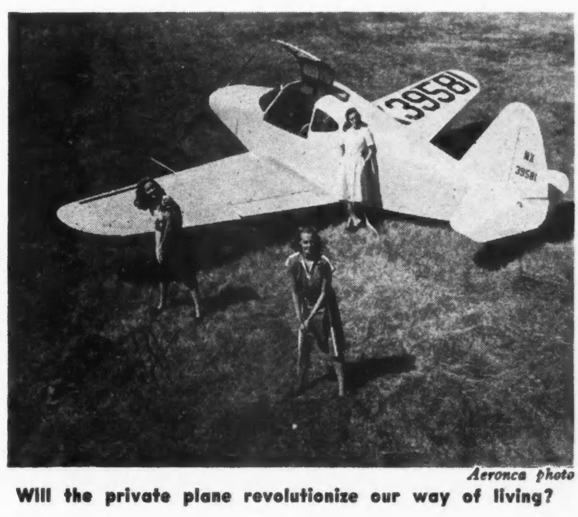
Opportunity for future material progress is immense; today we are only scratching the surface. But this can never be a worthy goal in itself, for material progress is an inadequate substitute for social morale, may lead to serious social disintegration.

This should be borne in mind by those, in business and Government, whose task it is to blueprint our postwar future. In doing so, the hardest problem unquestionably is that of understanding human behavior. In the past, instead of exploring it, we have formed certain assumptions and then reasoned from these assumptions, a procedure which frequently led to unsound conclusions. Complete laissez faire was one of these basic assumptions. Business leaders thought they had done their job when they paid high wages, made good profits, provided short working hours and through constantly higher living standards offered the prospect of relief from the age-old fears of poverty, famine and old age.

While all this meant economic and social progress, it failed to create proportionate contentment. Business by shortening working hours has given greatly increased leisure to multitudes of workers but leisure alone does not necessarily lead to a happier life. Only too often, it became a source of disorganization, created new demands, new discontent. Little wonder, then, that a critical reexamination of the concept of laissez faire is proceeding throughout the world.

Business and business progress, in innumerable ways, has deeply affected human behavior. The automobile, for example, has resulted in new ways for vast numbers of people, in new social routines. So has the motion picture. The evils of prohibition might have been intensified many times if the motion picture had not come into prominence at the right moment to provide a substitute for the saloon as the "poor man's club". The radio is building up a wholly new set of national habits. Advertising must be viewed as one of the most important ways of creating new routines, of evolving new habits and customs, of influencing mass behavior into new channels, of bringing stability in the wake of unsettling progress by establishing broad markets for new products. Great social responsibility rests on those who wield this business tool. They are constant builders of new ways and care should be taken that these are constructive ways.

A high material standard of living can in itself be a disorganizing influence. There is a great difference between workmen with a substantial amount of free income above necessities and workmen living on narrow margins.



Aeronca photo

Will the private plane revolutionize our way of living?

The former have freedom to experiment, the latter must live within established routines. Thus in our present-day society, endowed with the world's highest standard of living, we have a large decree of mass response instead of individualism, as a curious result of economic freedom of choice against a background of slackened social controls. We see this result in our national advertising. The automobile business as it existed up to the war was quite as much the product of advertising and effective selling as it was of science and engineering. It woud have been impossible without both. Mass advertising, however, is entirely based on emotional appeals. Vast as may be its good effect from the standpoint of consumption and employment, it frequently has not been without byproducts destructive to the general social orientation of men.

While constantly destroying old patterns, business also is perhaps the greatest builder of new routines. Look at the changes wrought by big business, by the corporation; the extent to which the lives and behaviors of great numbers of people are controlled by the habits and practices of business. Unfortunately, business so far has paid relatively little attention to organizing these new routines into a pattern of social living. The farm is a way of life, the factory is definitely not. The postwar era, however, may witness great changes in this respect.

It becomes daily clearer that business and industry now increasingly realize that they must not again fall into the error of the past when too little attention was paid to human relations and to the social consequences of the rapid changes which business and science are constantly bringing about. In the event of further neglect of these vital phases, business would only suffer, perhaps very greatly, therefrom, as it has in the past when the depression led to virtual collapse of morale. The widespread discontent that followed led among other things to sharp attacks on big business, on efficiency as such. The emotional demands for stability and security are after all methods of trying to satisfy deep-seated needs and business cannot, in the pursuit of efficiency, run counter to them. It does no good to deplore political intervention in business affairs. Where logic comes in conflict with widespread sentiment, it is sentiment that usually wins. Unfortunately, politics when attempting to take charge of business can be equally disturbing. However, business can do nothing but face the inevitable of these experiments and plan accordingly, with the conviction that too rapid and too far-reaching political experimentation will likewise defeat its purpose.

R. C. A. photo

What far-reaching changes will television bring in its train? How will it influence human habits, even business methods?

It is a problem that calls for cooperation and constructive approach in the light of our errors of the past. What we must guard against, above all, is giving free rein to our urge for heedless expansion of our "frontiers of tomorrow", weighing economic desirability against the need for social stability. The cry for full employment is heard everywhere, yet if in complying with it we ignore the need for proper social orientation, we shall reap disorder rather than stability.

The Role of Business

It will be up to business to "prescribe" the pace and scope of ordered progress; should it fall down on this job, going all out in a wild competitive scramble for markets for a multitude of new and revolutionary products, it will itself be preparing the ground for ultimate further Government interference. It will, in short, do itself a distinct disservice. Fortunately, business and industry appear determined to make haste slowly.

There are many ways in which new postwar products, or new economic and social trends, could become disorganizing factors, unless wise guidance prevails. Consider the trend towards a constantly shorter work week, giving the worker immensely more leisure time than he ever enjoyed before. More leisure is a desirable goal but it can also be enormously unsettling.

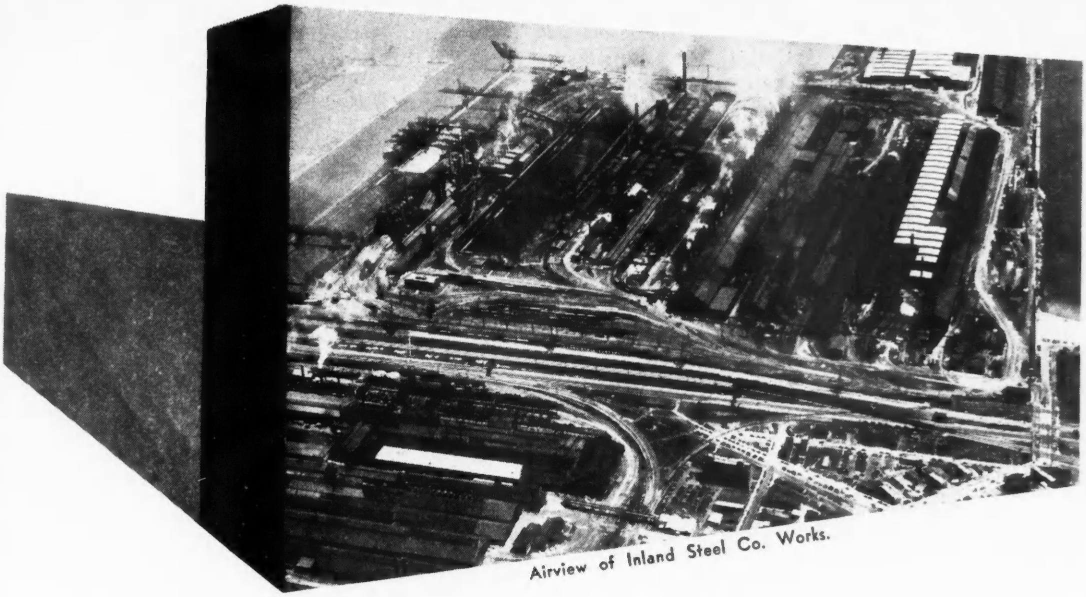
In the past, it has led to demands for higher basic wages to compensate for reduced income from fewer working hours. Unless such wage demands are balanced by increased production efficiency, they spell higher prices and thus no increment in real wages. In the end, social discontent is the result. Sometimes, too, more leisure has weakened the will to work or rather realization of the necessity to work; on the other hand it has strengthened the disposition to experiment, sometimes with deplorable individual results. Leisure beyond a reasonable limit can become a truly disorganizing factor, both social and economic. This is only too true in this highly materialistic world of ours. Almost always, it results in desire for more money to enjoy leisure. In anticipation of coming peace, this trend today is clear-cut.

However, there are constructive aspects as well, depending mainly on the social morale and ambition of the individual. Especially outside of big cities, more leisure for the worker has frequently produced a happy blending of industrial work with agricultural pursuits, an economic stabilizer of great desirability.

Then there is the question of decentralization, both residential and industrial. New ways of quick transportation, especially air travel, will foster this trend, yet if it develops too fast, repercussions will be unsettling and felt adversely in a great many directions.

If the private airplane were to rival or supersede the automobile as a mode of individual transportation in a matter of relatively few years, everyone will agree that repercussions might well be disastrous, at least for a time, from the standpoint of social and economic stability. It would disrupt a good many of our key industries, make for tremendous shifts in business and industry. It would probably overstimulate long-distance travel, rapid decentralization and perhaps even widespread migration to an extent that would be far from desirable.

Much the same, in the broad- (*Please turn to page 319*)



Airview of Inland Steel Co. Works.

Corporate Earnings Potentials Under Revised War Outlook

BY WARD GATES

DURING the past summer, especially after the fast llied sweep into Paris and beyond, it was the genal consensus that victory in Europe probably would me this year. Even the more conservative guessers oubted that Germany could last out the winter. Acmpanying that optimism was a comfortable assumpon that we could probably lick the Japs in six months a year after German surrender and do it—industrially eaking—with one hand. Even with the left hand.

On that hypothesis most people anticipated that the ring of 1945 would see our reconversion slump in dustrial production decisively started, that the shift the durable goods industries to civilian production ould be well advanced by the end of the year, that ational income would be sharply lower than in 1944, d that aggregate corporate earnings would be down om the current year's level by perhaps somewhere etween 15 and 25 per cent, with the "tax cushions" eventing more serious shrinkage.

During the preparatory interlude which preceded the ening of the Allied offensive against the Siegfried ine in mid-November—a period accompanied by relae inaction also on most of the Eastern Front and by apparently complete stalemate on the Italian Front—ere began to be sober second thoughts taken on the ospective duration of the war. In very recent weeks—ith bitter fighting yielding but small gains, with the sualties mounting, and with the Army urgently deanding greater war output of certain types—there has en a precipitate retreat from official and public hopes early victory in Europe. Indeed, comfortable opmism as to the prospect both in Europe and in the r East has virtually collapsed.

Very likely there is some element of propaganda—wholly justifiable—in the stern official warnings recently emanating from Washington and elsewhere in a veritable barrage. For months, though the war still had to be won, there had been too much complacency, too much of a talk-fest about reconversion and the post-war boom, too much advertising of post-war gadgets, too much cashing of war bonds, too much of a tendency among war workers to get-out-while-the-getting-out-is-good.

In giving us a considerably revised picture of the war prospect and of war production needs, there can be no doubt that the responsible officials have stated the truth so far as it is possible for them to see it. The latter qualification is pertinent because estimates of war production needs are necessarily subject to periodic and unpredictable revisions—either up or down—due to changed tactics dictated by battle experience, alterations in design of equipment, favorable or unfavorable "breaks" that may modify strategy as well as tactics, etc.

For months the Army had opposed any relaxation of WPB restrictions on civilian production. It objected to even the nominal beginnings of reconversion under the spot authorization program. It wanted utmost emphasis on the urgency of war production, less emphasis on reconversion planning. This "battle" has now been won. Suddenly the newspapers are almost barren of news having to do with reconversion moves or planning. Cartoons depicting front-line shortage of ammunition are common.

Neither civilians nor non-military Federal agencies, including the War Production Board, are in a position to question—especially publicly—whether the Army is now over-stating its needs and tending to exaggerate the current "crisis" for policy reasons. But while "going

along" with the Army, there are various indications that WPB officials are not being swept off their feet by this home-front drive. If the production crisis is soon resolved—disappearing from the newspaper cartoons—neither they nor many competent observers of the industrial world will be surprised.

On December 7 the WPB released chief production totals for the three years 1942-1944. We will not repeat them here except to note that they include about 383,000 pieces of Army artillery of 20 mm up; and 35,820,000,000 rounds of small arms ammunition—the program which was cut back sharply many months ago and which is now being re-expanded. This total of small arms ammunitions equals over 3,500 bullets fired, or available to be fired, at each enemy soldier, assuming that total Axis combat troops number as many as 10,000,000.

Our present offensive on the Western Front is only a few weeks old. It is hard to imagine that Gen. Eisenhower would have launched it unless assured of adequate supplies on hand, and of a continuing adequate flow of reserve supplies. Cutting through the somewhat muddled news on war production, the following things appear true: (1) the Army under-estimated certain needs —for example, the heaviest artillery, shells therefor and military trucks—but corrective steps were taken many months ago and output has been sharply increased; (2) the production "lags" do not represent a falling off of output in the most urgently needed items but the difference between the increased production and the sharply increased output schedules called for; (3) the purpose of the intensified production drive in selected items is not to meet an immediate battlefront supply crisis but to make doubly sure that future supplies, both for the European war and the war against Japan will be not only adequate but plentiful.

To say that the Army is now planning for a long war, especially in the Far East, is correct, but somewhat misleading. It never planned for anything but a long war. The decision to increase selective production schedules is dictated partly by battle experience, partly by an increasingly conservative determination—properly to be expected of any American High Command—to "play it safe" on supply. As an example, the $500,000,000 worth of new plants to make mortar ammunition are not expected to be in production before well into the summer of next year.

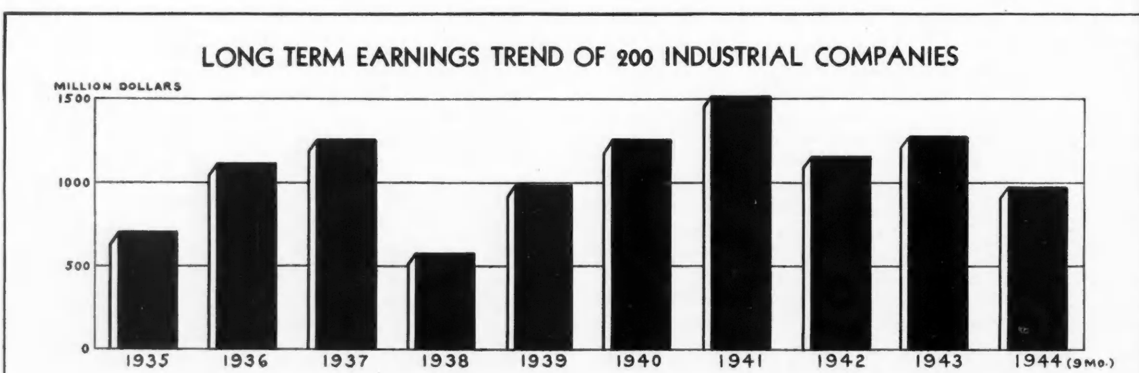
It is now stated that the Army is thinking of an overall cutback in war output after defeat of Germany of perhaps no more than 20 to 30 per cent, as compared with a previous tentative figure of 46 per cent. H ever, there is nothing fixed about this. Chairman K of the WPB, in recently emphasizing increased prod tion needs, unobtrusively threw in this remark n the end of his statement: "Even the Army's plan entirely tentative. It will be revised several times bef V-E Day actually arrives." If the Army says that the Jap war it must have war output approximat 70 to 80 per cent of maximum output for both w it will get that production. Civilians will control th surprise and swallow their incredulity. But it can stated that if WPB officials were speaking off the rec they would say they are not yet ready to abandon th notion that the cutback will be around 40 to 50 cent, which is about what they have been "thinki all along.

No Certainty

Nor is there anything of certainty about the revi time "schedule" for victory in Europe or over Jap It is not a thing that can be calculated. Though offi and public hopes have fluctuated with the week-to-w and month-to-month tide of battle, the question of "duration" remains just what it has been all alo namely, almost anybody's guess. While the Europ war may drag on into next summer, it is not inc ceivable that it might be over, except for mopping operations, in another six weeks or even less.

The Germans are no longer able to trade space time. It is not now a question of how many miles Berlin but of how soon German losses will dep reserves to the breaking point; of how soon the Al can break through the Siegfried Line to the Rhine matter of some 25 miles in the region west of Colog There can be no other defense line east of the Rh remotely comparable in strength. This statement is "armchair experting." Gen. Eisenhower has expres the opinion that the Germans will use all they h got to keep us from reaching the Rhine; and the i fable Goebbels may have been speaking the truth once when he warned the German people last week t the decisive struggle—the "last round" were the e words—is now being fought.

In trying to make their plans, business men m give due weight to the prevailing thought that the G man war may drag on for many months—and yet ignore the possibility that the end might come m earlier than is now generally anticipated. It is to doubted that increased output of certain varieties



ır items will bring more than relatively moderate ange in aggregate industrial production. The place-ent of new orders—orders placed weeks before the esent "crisis" became a matter of public agitation—d already been sufficient to halt the protracted gradual cline in the Reserve Board production index, which October had stabilized around the same level reached early as last July. Competent economists had fore-st—also some weeks ago—that the index would show moderate rise for November and December, possibly tending through January. This projection may need pward revision if present placement of new orders is ywhere near as heavy as seems to be implied by the tpouring of words—none too specific—from Washing-n. However, it appears very improbable that we shall ain see the production index, recently around 230, as gh as the late 1943 peak of 248.

It is stated by WPB that there is no intention of tting down on present programs of essential civilian oduction. As a practical matter, the but recently in-oduced spot authorization program—further applica-on of which is now suspended—amounted to no more an permission to produce relatively insignificant nounts of civilian goods if labor, raw materials and mponents could be had without interference with the r effort. The dollar value of total authorizations as estimated at less than 1/2 of 1 per cent of the cur-nt rate of war output—and the bulk of that was pos-ble future production.

One can say that it is quite certain that there can no really significant change in overall industrial ac-ity or in general domestic conditions until after defeat Germany—but we knew that before, and it is nothing w. Therefore in any attempt to forecast economic anges in 1945, one is up against two big "ifs." The st is just when Germany will be defeated. We can t know the answer. The second is, assuming victory Europe may come by spring or summer as is sug-sted by the present "play-it-safe" military sentiment, ether the overall cutback in war production will be small as the Army now tentatively implies or the to 50 per cent that off-the-record WPB guesses still ld to. We can't foresee the answer to that either. —like the Army's estimates—any forecast of 1945 in-strial activity, national income and corporate earn-gs must be tentative and subject to change as events fold.

How Much Production After VE-Day?

The consensus of opinion now built up is that indus-al volume for 1945 as a whole will be materially eater than had been generally expected, that the let-wn after V-E Day will be very considerably less than d been anticipated, that reconversion will start later an had previously been believed, and that the pro-rtion of total production for civilians in 1945 will t be as large as had been looked for. No one can allenge this on a factual basis, and it may conceivably right. But who can say to what extent this view ts on "psychology"—capable of being rapidly changed events—as distinct from firm official planning? It y be almost as fallible as was the opposite psychology e high hopes of early victory—which swept the coun-when our armies were racing through France. If Germans still have any fight left when the Rhine crossed, another race, rather than slow slugging, bably will be on.

et us refer again to certain production figures for

War Time Changes in Corporate Profits

(Expressed as Per Cent Return on Net Worth)

	1938	1939	1940	1941	1942	1943
Total Manufacturing	4.8	8.5	10.3	12.4	10.1	9.9
Total Trade	8.4	11.3	10.5	11.3	9.9	10.1
Class I Railroads	Def.0.9	0.7	1.7	4.6	8.3	7.8
Electric Utilities	6.0	6.2	6.9	6.5	6.0	6.4
Mining & Quarrying	4.6	6.3	5.5	7.8	7.5	6.9
Baking	8.6	8.7	7.6	7.4	9.4	9.9
Dairy Products	8.4	9.9	9.2	10.2	10.1	10.0
Meat Packing	—	4.9	5.5	8.8	8.5	7.9
Sugar	1.6	4.1	4.9	5.7	9.9	6.2
Soft Drinks	35.2	35.7	34.6	35.5	24.2	23.0
Distilling	11.9	10.0	11.6	13.5	12.8	14.8
Tobacco Products	12.8	13.1	13.5	11.7	10.5	9.8
Cotton Goods	—	3.6	5.5	12.1	10.6	8.4
Rayon & Silk	3.4	11.5	9.5	9.7	8.3	7.5
Woolen Goods	—	4.3	5.8	11.8	9.5	9.1
Clothing	2.6	10.4	8.5	11.4	11.6	11.6
Shoes	4.2	6.9	8.1	10.5	9.8	9.1
Rubber Products	5.0	9.4	8.8	11.4	10.3	13.1
Paper Products	3.4	6.4	9.6	10.5	7.9	7.2
Chemicals	7.8	12.9	13.2	13.6	10.4	10.4
Drugs, Soap, etc.	13.9	19.6	21.6	21.5	16	17.4
Petroleum Products	4.6	5.4	6.9	9.9	7.0	7.9
Cement, Gypsum, etc.	4.0	7.5	7.8	8.9	7.4	5.0
Iron & Steel	—	4.5	8.5	9.6	6.3	5.6
Farm Implements	6.6	5.1	8.5	10.6	8.4	8.5
Building Equipment	0.6	6.6	10.5	11.7	9.1	9.4
Electrical Equipment	5.7	10.5	15.3	15.6	11.1	12.4
Household Equipment	5.7	11.7	12.9	16.0	9.6	10.5
Machinery	6.1	8.6	14.9	19.7	15.2	14.5
Office Equipment	10.0	10.4	12.3	17.1	13.4	11.2
Railway Equipment	—	21.8	7.4	10.5	9.0	9.0
Aircraft Parts	4.7	9.9	37.8	48.8	36.0	36.8
Automobiles	7.3	15.9	17.3	18.3	13.3	12.4
Auto Equipment	—	12.8	17.8	19.9	16.8	17.6
Food Chain Stores	7.1	10.4	9.0	9.8	8.3	8.4
Chain Stores	11.3	13.3	12.0	012.9	11.7	11.4
Dept. Stores	3.9	5.7	7.8	8.4	8.6	9.4
Mail Order	9.8	14.0	12.1	11.7	9.9	9.7
Total Net Worth (in billions)	$56.4	$55.5	$56.2	$56.9	$56.2	$57.7

Note: Above figures are from National City Bank and cover a total of more than 2,000 corporations. Though varying by years, number of companies in each group is large enough to make the average return typical.

1942-1943-1944: 230,737 airplanes, 56,229 Navy vessels, 3,876 merchant ships, 10,743,000 rifles and carbines, 2,294,000 machine guns (one for almost every fourth man in the Army and Navy, including non-combat personnel); 1,796,000 Army motor trucks, etc. Now it is indicated that there must be more and more of many of these and other items. Suppose the stepped up production programs continue into next summer. Would it not then be likely—certainly it would be possible—that V-E Day would find our "arsenal of democracy" not only brimful but running over?

What the writer is suggesting—it obviously can not be a forecast—is the possibility that speeded up war output in the months just ahead may be at the expense of later war output; and that, for all of the present tentative official planning to the contrary, the deflation of industrial activity after V-E Day *may* be just about as great as was being allowed for some months ago. In this connection it is pertinent to repeat the qualifying and publicly made assertion of WPB's Chairman Krug that the Army's present revision of planning is "tentative."

Whether the overall cutback is 20 to 30 per cent or 40 to 50 per cent it will in any event represent a big slice out of production. (A mean between the extreme tentative "allowances" would be 35 per cent.) The proportion by which it will reduce 1945 volume probably will depend somewhat less on just how much the percentage cutback amounts to than on when it comes. Obviously, the later it comes in the year, the less will it reduce total 1945 volume as compared with 1944. It will not be a sharp, overnight slump, but a tapering off with the greatest period of order cancellations spread over a period of at least several months. Thus, should victory in Europe not be won before mid-summer, as Mr. Churchill's latest observations seem to imply, it is probable that the first quarter of real industrial slump would be the fourth quarter of 1945. (*Please turn to page 319*)

Is Controlled Inflation Possible?

— Our Rising Money Supply —
(in billions of $)

BY JOHN C. CRESSWILL

DURING the war period since 1939 this country's money supply, as represented by deposits in commercial banks and the amount of currency in circulation, has been expanded—inflated, if you will—by roughly 125 per cent. But even with allowance for reduced quality of consumer goods, the purchasing value of the pre-war dollar has to date been "clipped" only by some 25 per cent.

It is as if one had drunk five quarts of whiskey—with only one quart having the customary effect. That's "controlled inflation." Not completely controlled, of course, for in that case there would have been no advance in the price level and the cost of living; but 75 per cent controlled. Not bad. The powers that be at Washington are proud of it, and there are reports that continued "controlled inflation" will figure very prominently in the Fourth Term economic planning.

What a happy land this would be—with a delightfully smooth road to the more abundant life—if we could be sure that the Government can indefinitely pump out inflationary purchasing power and yet prevent it having proportionately inflationary effect on the cost of living! If inflation could continuously increase the national income by a greater percentage than it depreciates the purchasing value of the dollar, then one who questions its blessings ought to have his head examined. But anyone naive enough to believe that would also believe that the law of gravity has been repealed and that water will run up hill.

Actually, our highest fiscal authorities do not have complete faith in "controlled inflation." Although the Government has operated at a deficit for fourteen consecutive years and a balanced budget is still out of sight "around the corner," they assume—and assure us—that this is a temporary thing, an emergency thing. It is taken for granted that some day, in some way, inflationary deficit financing must halt. They insist that the dollar must and will be kept "sound." You will hear none of them contend that endless monetary inflation is compatible with a "sound" dollar. The fundamental principles of orthodox Government finance are being rigidly adhered to. Although our taxes, a primary inflation control, are not by any means the world's highest, the war-time *increase* in rates—a more realistic measure of civilian adjustment to a war economy than differences in prevailin levels—has been far greater than in Great Britain.

Before considering the question of how well—or poorl —more "controlled inflation" is likely to "work" durin the transitional post-war period, it is pertinent to ex amine briefly the various reasons which, in combina tion, have made it possible to manage inflation with such relative success during the war period to date. Durin the five war and early post-war years 1916-1920 the cos of living (official index for wage earners) went up abou 92 per cent. Although the proportion of national pro ductive effort diverted to war this time has been fa greater, during the five years since 1939 the living cos increase has been only 25 per cent or less than 28 pe cent as great as in 1916-1920.

The reasons for this difference include: (1) We entere this war with relatively much greater "slack" in em ployment and industrial capacity than existed in eithe 1914 or the spring of 1917 when we became a belligeren in World War I; (2) due to the great growth of the con sumer durable goods industries after the First Worl War—especially the motor and accessory industry, ele trical equipment and radio—we had a larger relativ capacity in the segments of industry readily convertibl to war production; (3) more advanced techniques an "know how" in plant construction permitted a relativel faster increment in new industrial facilities; (4) w entered this war with relatively larger inventories o consumer goods to draw on; (5) largely as a result o experience gained in the First World War, the overa Government planning and control—including reasonab prompt adoption of rationing of scarce consumer good higher taxes, emphasis on war-bond savings, price ce ings, etc.—were much more effective than last time; (from the start the general public, as well as the Gover ment, was much more "inflation conscious" than la time, this awareness of the problem contributing greater voluntary moderation in consumer spending an consequently greater savings.

Now for the future, it should be obvious that the co trols—especially rationing, price ceilings and wage-sala stabilization—can not be safely terminated until a sha reduction in war production and increase in civili production bring the current supply of consumer goo

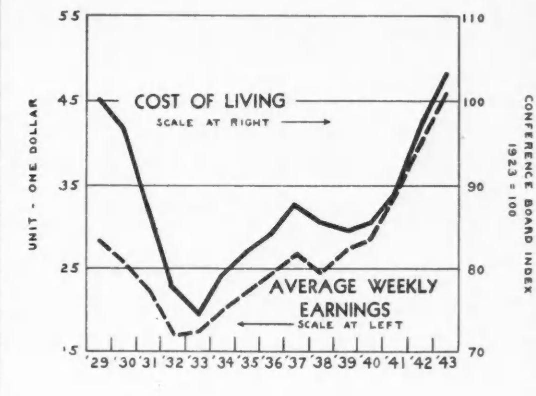
into adequately effective balance with the current consumer demand. Just when that might be is unpredictable.

At present—and all the portents suggest that this will be even more true after defeat of Germany—the weakest link in the chain of controls is wage stabilization. The labor unions continue to nibble away at this "line." At irregular but periodic intervals it has been "bent," the latest example having been the recent "fringe" pay increases granted steel workers by the War Labor Board, estimated to amount to an average of about 7 cents an hour. Other unions are now busy cooking up "fringe issues" such as higher pay for night work, "substandard" pay, elimination of job rate inequalities, etc.

However, despite making small concessions in a generally stubborn and time-consuming rear-guard defense of the "line," the Administration shows every sign of being adamant in its determination not to terminate wage-salary stabilization at least until after defeat of Germany. But by now it is virtually a foregone conclusion that wage stabilization will then go out the window and that the Government will support and sponsor higher hourly wage rates under the New Deal "purchasing power" theory of prosperity. This will not be called "controlled inflation." It will sound better to call it "anti-deflation."

Whatever it is called, if industry enters the transitional period of reduced volume with materially higher hourly wage rates than now prevail, there must inevitably be either a substantial upward adjustment of OPA price ceilings or a sharp squeeze of business profits. The tentative evidence seems to promise a combination of both. At least as to general principles, OPA policy for meeting the situation it knows is coming is already indicated. Its idea is that higher wage costs should be absorbed partly by higher prices, partly out of business profits, partly out of future increases in the efficiency of production. It will strive to limit the price increases as closely as possible. For purposes of business planning—which requires something more than loose generalities—the thing remains an enigma.

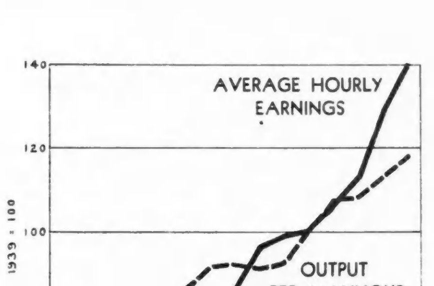
It is undeniable that for national prosperity we need a high level of consumer income. But inflation, controlled or not, can not be a satisfactory or effective method of getting it, and the "purchasing power" theory, of which we have heard so much over the past New Deal decade, makes sense only within reasonable—that is, workable—limits. Carried to excess, it must defeat its professed



national purpose; and under the program to which the Administration appears leaning there is exactly that potential danger.

Private wages and salaries can only be paid out of the revenues obtained from production and sale of goods and services. If excessive labor costs impinged chronically on profits, there would be less business expansion and less labor employed. If excessive labor costs forced higher prices of goods, actual purchasing power of the public as a whole would be proportionately reduced. The true road to economic progress is the hard road, the road on which enduring advances can never be made as rapidly as many demand; the road of ever increasing producing efficiency, with the fruits attained thereby equitably divided among workers, owners and consumers. These are the most elemental economic realities—yet some people in Washington and in the labor unions seem to need to be reminded of them.

As it operated before the war—and since—the "purchasing power" theory brought very uneven gains among employed persons—large gains to a minority of the most powerfully organized factory workers, smaller gains to others, no gains at all to a large group with incomes either fixed or relatively inelastic for immutable economic reasons. To cite how much the incomes of most all groups have increased since the depression year 1932 is to confuse the issue. Compare any average or "normal" year of the mid-1920's with 1937 or 1939—or 1944—and these are some of the significant changes: (1) a large net increment in purchasing power of a minority of organized factory workers; (2) a slackened rate of long-term price reductions growing out of technological progress; (3) reduced purchasing power for much of the "white collar" middle class, which is numerically the largest group of all; (4) a substantially reduced rate of return on productive capita investment, both in terms of operating margin and net income; and (5) chronic unemployment, until temporarily ended by the war activity.



Bearing typically on point No. 2, it may be noted that the long trend of price reductions on automobiles, previously made possible by notable progress in technical efficiency, terminated when the unions "took over." There were further large gains in automobile output per man-hour over the nine years 1932-1941. There *had* to be to meet repeated increases in wages and maintain adequate profits. But for the first time in the industry's history, prices to consumers (*Please turn to page 326*)

Happening in Washington

Charles Phelps Cushing Photo

By E. K. T.

Washington Sees:

Asked for the real lowdown on the Byrnes' order to reinstate draft in the older bracket of registrants, one of Maj.-Gen. Lewis B. Hershey's aides summed: "We have been asked to say 'boo' again."

Once more, it appears, labor recruitment by bluff is being attempted. That has been the history of War Manpower Commission operation without enforcible law. And the statement by Senator James M. Mead, chairman of the former Truman Committee, that "it is too urgent now to wait for legislation; the problem must be met and solved within 30 days," points up the true situation.

That means that all of the old remedies that previously failed, the urgings, pleadings, threatenings, are to be trotted out again. Lacking statutory authority, government chiefs from Byrnes on down must try to meet an urgent wartime problem by bluff. WPB legal lights have found no authority for use of priority regulations as a club to drive employers out of the competitive labor market, and General Hershey already is on record as saying the Selective Service Act cannot be lawfully employed to control civilian employment.

Why is essential legislation lacking? Solely because departments sought to by-pass Congress, rule by executive fiat.

FIGHT for the Saar may prove decisive in the War of Europe. Its mines gave Germany seven per cent of her coal, ten per cent of her steel and pig iron. With the Ruhr hard hit the Saar takes added importance, but between American armies and that goal lies the Siegfried Line. The supreme command in Washington places a high price on the Saar, admits it must be paid for in blood, but knowing Germany cannot give it up and remain in the war long, is prepared to pay the price.

RETIREMENT of Secretary Cordell Hull will delay important Cabinet shifts. The Cabinet is an advisory body to the President, importance of which is not generally recognized. Having lost his bulwark of "old-fashioned ways," F D R is not inclined to be hasty. But one change can be put down as certain and early: Robert E. Hannegan, party chairman, will succeed Postmaster General Walker, who is ill, tired, unhappy, out of his element, and—unlike Hannegan—doesn't need a job.

SOCIALIZED medicine, of a type, is in prospect without legislation but with the taxpayers footing the fees. The Veterans Administration has a 25-year program to increase hospital beds from 95,000 to 300,000, and at the war's end 20,000,000 persons—one-fourth of the adult population—will be eligible for medical care supplied by the government. That represents the armed strength of the two wars. Tuberculous patients and psychiatric cases, needing specialized facilities, may lead in numbers and problems.

WORK-OR-FIGHT orders from the White House won't cure the manpower situation, and that fact is fully realized. The working force of ten millions already has been raided by selective service and has few eligibles in it who are under 38 years of age—older men, and women, make up the major part of these millions. Of the 700,000 who quit industrial jobs each month most are beyond the reach of the draft for those or other reasons. Krug's bonus plan still gains strength. Universal service is "out."

COST BURDENS of post-war "made work" may be lightened if a program gaining ground here is adopted. The Treasury has six billion dollars of social security funds which some, notably retiring U. S. Senator John A. Danaher of Connecticut, see as a source for financing self-liquidating projects which keep principal intact and pile up interest. Skeptics prefer to await the report of actuaries, but aren't discounting the potentialities.

AS WE GO TO PRESS

War Production Board officers maintaining contact with the military are passing on word to industry not to anticipate Victory in Europe until late in 1945. That's based on independent survey, not predicated upon Churchill's revised estimate of number of months of war ahead.

The advice goes beyond delaying reconversion; includes planning for more facilities. For instance, two pulp producing mills long out of use will be reconstructed with an August completion in mind.

Since free flow of pulp for paper and container manufacture is assured as soon as Germany falls, the WPB advice goes far to fix the current forecasts on end of the war, moves the date from spring to fall.

Announcement cellophane will be available to wrap chewing gum and cigarette packs had the desired psychological effect, and that's all that was intended. Gloomy packages have worried Washington. Use of chemicals, sorely needed elsewhere, has been permitted to avoid black-and-white labeled containers, allow color.

Actually, WPB once considered prohibiting comic strips in color, ruled it out on the ground that they would be depressing. Studies by Office of War Information had confirmed what most people thought: adults are avid followers of the "funny papers."

That study suggested wider use of comic strips to further the war effort, sell bonds, etc. Industry caught on to the notion and has launched what promises to be one of the most popular forms of advertising after the war.

Civil Service Commission has given the expression "duration of the war" a new meaning. Now it connotes a period extending not less than two years after the fighting stops. World War I didn't end Nov. 11, 1918. It legally terminated July 2, 1921-- two and one-half years later.

The Commission's action is meaningful. It serves notice that "wartime measures"--executive and administrative powers, duties, and controls--may still be operative years after men are out of uniform.

Coupled with a plea to government workers to "stay on the job for duration" was a promise of six months notice before separating any of those who complied, from the federal payroll. WPB and WMC are toying with the idea of a similar pledge to war plant workers.

The butter vs. margarine battle will be fought with renewed vigor in the new Congress with oleo standing a chance to win out, for the first time since the two products first locked in combat. With butter scarce, the 10-cent tax on artificially colored margarine may be wiped out.

Scarcity and high ration point values on butter have worked in favor of oleo. New industries have come into existence, old ones enlarged. Oleomargarine may become one of the major food industries after the war, if the tax is eliminated, for public taste has been cultivated to an unlooked-for extent.

Important factor to be considered is highly organized status of the dairy industry, plus the fact that it operates in all states, unlike some other farm groups.

Achievement of the U. S. Army in building a pipeline from Calcutta to Assam in North Burma lifts some of the pessimism from the China picture. Completion of this link has just been revealed, and forecast is that the stretch to southwest Yunnan Province will be on schedule.

That means planes flying the "Hump" will need to carry a single trip load of gasoline, not a round trip supply. It means more space for bombs, greater efficiency, less likelihood of ships and equipment lost. It means, too, that a project born of the necessities of war will contribute a peacetime boon.

The Treasury is fuming over Capt. Edward V. Rickenbacker's suggestion that returning servicemen "should not be saddled with a huge national debt." The World War Ace, now a leading industrialist, observed it might be better to cancel the debts, let them start from scratch.

Rickenbacker probably had in mind, but didn't make clear, that servicemen have sacrificed out of proportion to civilians and the scales should be balanced. But the Treasury thinks the period of the Sixth War Loan Drive was an inappropriate time to inject this proposition.

Government, for once, is practicing what it preaches. War veterans are being given jobs in large numbers. Since Pearl Harbor 4,000 with physical handicaps have been put on the payroll.

Federal agencies are looking to victims of war's injuries to fill gaps left by 600,000 civilians who resigned to enter military service. Many will want their jobs back at the end of the war. No one has the answer to the problem ahead.

Owners and renters of commercial properties may prepare for OPA rent ceilings next year. The Wagner Bill, placing those rentals under control in the same manner as residential space now is, has been sidetracked, but only for the current session.

The principle was approved but delay was grounded upon "state's rights"-- the possibility, admittedly not a probability-- that states may elect to legislate in the field. Most legislatures meet in January.

OPA Administrator Chester Bowles says no state has shown an inclination to move despite serious abuses in many localities, notably New York City where loft leases have developed a scandal. Sheafs of letters attest the proclaimed need for OPA intervention, OPA says by way of groundwork for federal law.

Commercial rentals are cost elements entering into the price of raw materials and production outlays and hit the consumer directly. The impact is immediate. OPA has evidence. Limitations may extend beyond money demands, also cover terms. Landlords are demanding long-term leases at enhanced prices.

With diplomatic relations more strained than cautious new stories would indicate, demand is growing for re-examination of lend-lease, going direct to its fundamentals and extending to its "end uses."

Congress will review the subject against a background of Britain's attitude toward liberated nations. Greece is an instance, but not the only one. Use of lend-lease goods to promote good will for England is to be probed. The suggestion that "reverse lend-lease" squares accounts has nettled Congress.

New Position of the BANK STOCKS -- For Capital Investment

BY PHILLIP DOBBS

WITH the recent announcements of stock dividends and higher cash dividends by several banks, bank stocks have come into the spotlight. During the last month, the Public National Bank, Bankers Trust Company, and the Harris Trust and Savings of Chicago have taken the initial action to pay stock dividends amounting to 10.20, and 33⅓ per cent, respectively, of their capital stock. It would appear from the earnings reported by these institutions for 1943 (and for 1944 through September 30) that the cash dividend rate will not be changed, so that fortunate stockholders will enjoy increases of one-tenth, one-fifth, and one-third in their dividend income from these securities unless they elect to sell the increased portion of their holdings. The cash dividend rate has been increased by the Bank of Manhattan, Irving Trust Company and J. P. Morgan. In addition it has been rumored that the National City Bank and the Guaranty Trust Company will also issue stock dividends.

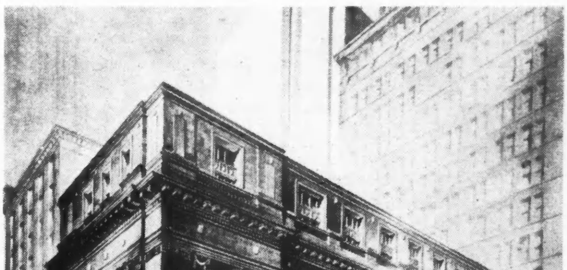
Naturally bank stock prices have been spurred on by this wave of higher dividends which has by no means been confined to New York and Chicago, the two leading financial centers of the country. The trend of bank shares, which are quoted almost without exception on the over-the-counter market, has been more favorable than of other shares. Since the April 1944 lows, the American Banker's index of bank stock prices has risen more than half again as fast as the Dow-Jones industrial averages. What is more, bank shares are now at the highest level since 1937, whereas the equities listed on the organized exchanges have yet to reach the levels obtaining shortly after the declaration of war in 1939. Bank stocks have at last emerged from the doghouse of investor opinion in which they were placed by the widspread failures of the early thirties. They are once again, albeit gradually, regaining their position as the premier medium of investment among equity securities.

This development is directly related to the war and the higher earnings that the banks' role as single most important creditor of the U. S. Treasury has brought. Despite the failure of bank loans to expand appreciably in the face of heightened economic activity and despite the fact that interest rates were at or near the lowest levels on record, all member banks of the Federal Reserve System were able to report net profits after recoveries of assets previously written off and after profits from the sale of securities, at exactly the 1929 figure of 557 million dollars.

The answer to this apparent anomaly is equally apparent. So great has been the expansion of the total resources of the banks—Government security—holdings to the exclusion of almost everything else—that despite the very low rate of return per dollar of earning assets, total earnings have risen to the level of the good old days. In fact, judging from the Federal Reserve reports of member bank earnings in the first half of 1944, the 1929 net profts will be exceeded in the full year of 1944. It's in its effect the same old story of high volume, low unit costs, and high over-all earnings as applicable to mass production manufacturing and marketing industries.

Government security holdings of all member banks increased by more than four times between 1940 and 1944. During 1940 and 1941 investments in Government obligations rose only moderately, by 1.5 and 3.7 billion dollars, respectively. In 1942, the first full year of Ameican participation in the war, however, bank purchases of Governments spurted sharply amounting to 18 billion. In the following year Government security holdings increased by 15 billion and it is estimated that the full year 1944 will see further acquisition of about 13 billion dollars worth of Governments. All told, bank portfolios of Government securities rose over 51 billion dollars, and Government obligations grew to exceed 70 per cent of total earning assets.

The significance of this development has an additional aspect aside from the fact that it has brought about substantial improvement in bank earning power. This aspect lies in the fact that interest due on Governmment



Banks made a major contribution towards financing the war

obligations will always be met and that the Federal Reserve Banks stand ready to maintain Government security prices at present levels and to extend credits on the security of Government obligations at par at all times. The overwhelming preponderance of Government securities in the composition of bank earning assets has not only improved bank revenues but it has added a factor of stability to those revenues that is not enjoyed by any other private ennterrpise.

Over the war period new loans have been made just

War-Time Trend of Bank Loans

about as fast as old ones have been paid off. Non-essential loans to non-war business, to consumers and on real estate have declined and their place has been taken by war production loans guaranteed by the War and Navy Departments and the Maritime Commission, and by loans to brokers and dealers and individuals for the purchasing and carrying of Government obligations. All in all, total loans will not have increased by more than 2 billion dollars over the four years endindg on December 31, 1944. Most of this gain so far has come in loans on Government securities, and the volume of war production loans has been disappointingly small. This was to have been expected, however, in view of the substitution of Government for bank credit in financing the major part of war plant expansion and of war production (the latter chiefly through advance payments on war contracts extended by the very Government agencies which guarantee V loans). The loans extended during the war have generally borne lower rates of interest in view of the prime collateral behind them in the case of Government security loans and the Government's guarantee in the case of most war production loans. Income from loans has therefore fallen off since 1941, but not to any great extent.

In New York, certain other eastern financial centers, and Chicago, the wartime changes in the banking position have been somewhat different. Banks in these cities have been subject to constant outflows of funds as a result of the differences in the geography of Treasury financing and Government war procurement. For strategic reasons, most new munitions plants have been built in the interior of the country and war contracts have been awarded in noncoastal areas as far as possible. On the other hand, most of the funds raised by the Treasury to finance the war have had their source in the big money market centers of the East, and in Chicago. The Treasury, in other words, has secured more funds from these cities through taxation and borrowing than it has spent in them, so that funds have constantly flowed out of the financial communities. As a result, deposits and Government security holdings of the large money market banks have not gained as rapidly as have those of banks in other sections of the country.

The pressure on the New York City banks has been especially great. In addition to the loss of funds resulting from Treasury operations, the New York banks have been the first to feel the drain on their deposits occasioned by the exportation of gold which got under way late in 1941. The United States has lost gold at the rate of about a billion dollars a year since 1941 as a consequence of increased exports under Lend-Lease while our rising imports of raw materials have had to be paid for in cash. The effect has been that foreign exporters in return for goods sold in this country have been acquiring bank deposits, primarily in New York, which they have been exchanging for gold. The New York banks, in effect, have had to buy gold from the Federal Reserve Bank with deposits held for foreign account, the gold being shipped abroad. (The actual operations by which gold is transferred abroad is somewhat more complicated than this simplified way of describing the practical effects of gold exports).

This pressure on the deposits and consequently the earnings assets of the money market banks has not exercised any detrimental effect on the earning power of those banks. In fact, in the presence of offsetting factors the net income of such institutions has tended to increase faster over the war period than that of other banks. Thus, most of the increase in loans has occurred among the larger banks. For one thing, most war production loans have been so large that the smaller

Statistical Data of Leading Banks

Leading New York Banks	Wartime Increase in Deposits (12/30/40-9/30/44) Per Cent	Earning Assets as Percent of Total Resources 9/30/44	Government Securities as Percent of Total Earning Assets 9/30/44	Net indicated Earnings per Common Share Calendar Year 1943	Net indicated Earnings per Common Share 12 months to 9/30/44	Current Dividend Rate	Times Dividend Earned 12 Mos. 9/30/44	Book Value per Share 9/30/44	1944 Price Range (Bids) High	1944 Price Range (Bids) Low	Current Price (Dec. 8 Bid)	Current Yield	Price—Earnings Ratio 12 Mos. 9/30/44
Bank of Manhattan	38%	80%	63%	$1.66	$2.08	$1.00	2.1	$25.83	$28⅜	$20¼	$28⅜	3.5%	13.6
Bank of New York	16	85	72	24.42	27.37	14.00	1.9	369.70	460	386	460	3.0	16.8
Bankers Trust Co.	8	82	67	5.48	4.05	1.40	2.9	52.07	61	47½	61	2.3	15.1
Brooklyn Trust Co.	60	79	78	5.19	7.69	4.00	1.9	178.84	113	85	111½	3.6	14.5
Central Hanover Bank & Trust Co.	18	82	74	7.28	7.54	4.00	1.9	100.45	110	95¼	110	3.6	14.6
Chase National Bank	23	81	69	5.09	3.87	1.40	2.8	38.33	45	35¼	45	3.1	11.6
Chemical Bank & Trust Co.	38	82	65	2.81	3.03	1.80	1.7	42.17	54½	46½	54½	3.3	18.0
Commercial National Bank	49	80	75	3.61	4.29	1.60	2.7	51.14	50¼	44	50¼	3.2	11.7
Continental Bank & Trust Co.	84	78	47	2.14	2.27	0.80	2.8	24.16	25⅜	17½	25⅜	3.2	11.2
Corn Exchange Bank & Trust Co.	65	76	89	3.56	3.82	2.40	1.7	50.45	§55⅝	§44½	§55⅝	4.3	14.6
Empire Trust Co.	43	84	71	7.06	7.79	3.00	2.6	98.05	85	70½	85	3.5	10.9
First National Bank	24	86	84	106.16	118.29	80.00	1.5	1,270.43	1,915	1,450	1,915	4.2	16.2
Guaranty Trust Co.	22	84	75	21.83	24.05	12.00	2.0	331.59	358	302	358	3.4	14.9
Irving Trust Co.	33	80	74	0.90	1.08	0.60	1.8	21.61	17¼	12½	17¼	3.5	16.0
Manufacturers Trust Co.	80	80	73	4.37	4.73	2.00	2.4	43.84	56	45	56	3.6	12.8
Marine Midland	52	80	55	0.86	‡0.92	0.16	5.8	†10.35	§8¼	§6⅛	§7¾	2.1	8.4
J. P. Morgan & Co., Inc.	6	82	80	21.66	#26.00	6.50	4.0	220.48	279	213	279	2.3	10.7
National City Bank	34	80	69	6.28	6.46	1.00	6.5	40.47	45	33⅞	45	2.2	7.0
New York Trust Co.	41	84	68	6.14	7.23	3.50	2.1	87.95	105½	89	105½	3.3	14.6
Public National Bank	115	81	70	3.31	4.25	1.50	2.8	50.49	49¼	34½	49¼	3.0	11.6
United States Trust Co.	—10	86	67	82.72	82.26	70.00	1.2	1,522.11	1,490	1,260	1,490	4.7	18.1
Leading Out-of-Town Banks													
Bank of America (San Fran.)	131	80	64	4.04	*8.39	2.40	3.5	**37.06	53½	44	53½	4.5	6.4
First National (Boston)	58	75	65	2.90	3.13	2.00	1.6	44.28	55½	47	55½	3.6	17.7
First National (Chicago)	70	80	70	27.27	*40.39	8.00	5.0	**202.39	290	220	290	2.8	7.2
Harris Trust & Savings (Chicago)	61	77	57	25.42	29.20	12.00	2.4	350.55	500	370	500	2.4	17.1
Penn Co. for Insur., etc. (Phila.)	49	74	67	2.21	2.28	1.60	1.4	28.30	39½	33½	39½	4.1	17.3

**As of June 30. *12 Mos. end. June 30. ‡ Net operating earnings before losses and write-offs and recoveries and profits. †As of Dec. 31, 1943.
§ Shares listed on New York Stock Exchange, prices cover actual trades, high, low, and close. #Estimated.

banks have not been able to handle them. For another, most of the Government security loans have accrued to the money market banks because such loans are customarily centered in the large financial centers where the security markets are located. In addition, the large banks had early adopted a policy of remaining "fully invested," that is they have kept their cash holdings down to the minimum necessary for meeting their customers' needs for currency and maintaining their reserves at the levels required by law, and have either invested (in Governments primarily) or loaned out every available dollar of idle cash over and above that minimum. In this way earnings have been maximized by full employment of all funds. The smaller and medium sized banks, on the other hand, have continued to maintain large deposits with correspondent banks and extensive balances with the Federal Reserve Banks in excess of legal requirements. No interest is paid on these deposits or balances.

Among the other major factors that have led to the improvement of bank earnings, aside from the growing significance of service charges as a source of income, most important has been the decline in the write-offs of earning assets. Since 1941, losses on loans and on investments have fallen about a third, reflecting the substantial increase in the quality of assets held—Government securities and Government guaranteed war production loans. In the same period, however, recoveries on assets previously written off and profits on securities sold have declined, principally because of a falling off in security profits. With the substantial liquidation of the second grade securities and other assets held over from the depression and with profits from the sale of Government securities small, some such decline was bound to occur. For these reasons, write-offs, losses and profits on the liquidation of assets may be expected to contract further in future years.

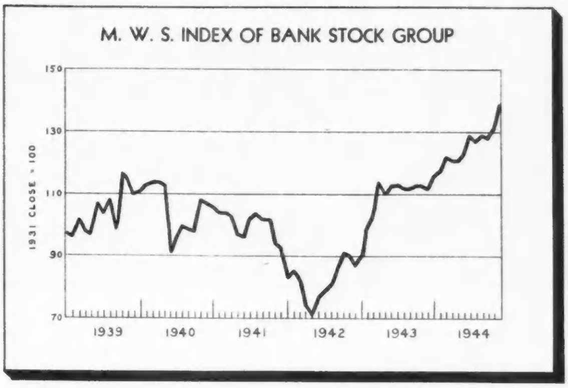
The tremendous wartime expansion of bank assets and, by the same token, bank liabilities (principally bank deposits), has created an alleged need for additional capital funds. Both bank management and Federal and State bank supervisory authorities recognize this problem. A few banks have issued additional stock to meet this requirement. Most of them have followed a policy of maintaining dividends at the depression rate (until recently) and adding all the increase in earnings to various reserves and to undivided profits accounts. In recent weeks, however, many banks have issued stock dividends, and in that way have earmarked a part of their increased revenues.

Capital Adjustments

The same effect has been created by a few banks by increasing the par value of their stock. Neither of these methods of increasing capital, however, answers the main problem which is that of increasing total capital funds inasmuch as they merely involve a transfer from undivided profits, one category of capital funds, to another, capital proper. Stock dividends, on the other hand, may help pave the way for favorable investor reception of any new securities that may be floated. This holds equally true for increased cash dividends which have also been declared with equal frequency in recent weeks.

The need for additional capital funds may be questioned, however, in view of the prominence of Government securities among bank assets and their ready convertibility into cash, thanks to the Federal Reserve Banks. Any tendency of "nervous" deposits to move out of the banks can easily be met by the sale of Government securities at a moment's notice without loss. In addition, short term securities may be allowed to mature without being replaced if cash is needed.

The outlook for increased bank earnings has never been better. In fact, it is possible to say with a certainty that can rarely be entertained in predicting the course of economic events that banking will be the only business that will enjoy higher profits in the transition from war to peace. And of course this observation applies to the postwar era after industry has fully converted to peacetime operations. The factors making for even more



prosperous conditions in the future than exist in banking today may be outlined as follows:

1. During the war and early postwar period, the Treasury is likely to continue to expend more funds than it takes in through taxes. The banks will continue therefore to finance a large portion of the deficit, especially since reconversion unemployment may impair the public's ability to absorb Government securities.

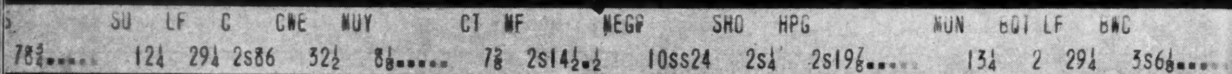
2. Corporations will be in need of large sums of money in order to make reconversion expenditures upon the conclusion of hostilities and will be forced to sell a large part of their accumulations of Government securities in the open market, primarily to the banks.

3. Savings bond owners may be expected to cash in at least part of their holdings so as to satisfy pent-up demands for new automobiles, refrigerators, radios, etc. In order to redeem these savings bonds, the Treasury will have to float new issues in the open market. Again, these securities will be absorbed largely by the banks.

4. The volume of bank loans may well increase after the end of the war, as the liquidation of war production loans is more than offset by a host of new loans to businesses that were forced to discontinue operations during the war (automobile dealers, for example) and to consumers, the real bright spot in the loan picture. In addition, termination (T) loans, GI loans, FHA-insured mortgage loans, and other types of more specialized loans such as accounts receivable, chattel mortgage, field warehouse, term loans, and instalment loans on commercial and industrial equipment as well as on consumers durable goods, are all expected to swell the banks' loan volume after the war. The banks are taking feverish steps to recapture the loan market from the finance companies and other private and public lending institutions. To this effect they have organized a number of bank credit groups which will undertake to extend credits to small business enterprise which cannot be handled by individual local banks because of the length of the term of the loans or because of other conditions of such loans. In addition, the larger banks through the V loans have reestablished local loan rela- (*Please turn to page* 320)

. . . in search for yield . . .

TIMELY SUGGESTIONS



--For Safety and Income from Selected Preferred Stocks

Cushing Photo

BY JAY D. NORTHRUP

As the year-end approaches many investors are selling to register profits or losses for tax purposes, with resultant switching involved in these December security adjustments. Some investors are buying the better preferred stocks with proceeds received from bonds called for redemption. There has also been considerable buying in the more speculative preferred stocks, including those with heavy dividend arrearages, a list of which appeared in the Magazine of Wall Street issue for October 28.

Many companies in the past three years have arranged to pay off all or part of the dividends accrued on their preferred stocks. However, those who contemplate buying any of these speculative preferred issues should first investigate each situation carefully as it is by no means certain that plans will be formulated in the near future for taking care of all these accruals. In some cases, there are apparently insurmountable difficulties such as opposition from stockholders and the state laws under which the company was incorporated. Companies which appear to be in a good position are: (a) those which have made some dividend payments this year, and (b) companies which have earned more on their preferred stocks in the last two years (1942-1943) than the total amount of dividend arrears. (see table in October 28 issue, page 93).

For some time, we have been witnessing a growing shortage of high-grade investment media. The steadily lowering yields of high grade bonds has increased the demand for better yielding preferred stocks which possess some favorable factors over bonds not only because of the greater income, but also because there is a good possibility of a more liberal tax treatment through eventual elimination of double taxation, that is taxation of corporate profits and dividends distributed therefrom.

While the writer would stress the necessity for maintaining at all times a proper relationship as between bonds, stocks and cash in order to afford maximum flexibility of portfolios, many investors may be dissatisfied with their present security holdings and desire to substitute some preferred stocks. In any such revision, the first consideration should be elimination of securities in unpromising industries or those having unstable earning power and/or an erratic dividend record, especially where income is a prerequisite. Of course, in making one's selections it is essential to have adequate diversification and allocate only a certain percentage of funds to securities of companies in any single industry. In apportioning funds among various types of securities, the investor must be guided largely by personal circumstances and requirements. In making new commitments, one should avoid paying more than the call price in the event the security has a redemption provision.

Furthermore, basic characteristics of preferred issues differ from those of bonds in two respects: (a) there is no fixed maturity date, and (b) dividends do not constitute a fixed charge so that omission does not affect the solvency of the company.

As banking institutions are not permitted to buy preferred stocks, marketability is generally poorer than that of high grade bonds, and price fluctuations greater.

Two lists of preferred stocks have been prepared to assist investors in selecting issues which comply with their objectives. List No. 1 contains a group of high grade preferred stocks. List No. 2 comprises medium grade preferred issues for appreciation and for income and presents opportunities for investors seeking liberal income yields from fixed income securities.

The price range for this year shows clearly that even the high grade preferred stocks fluctuate in value, and purchases made after the price pendulum has swung too far from the low may eventually result in a substantial capital loss. It is therefore preferable to try and make purchases when the market price approaches, or is lower than, the average price for the year. This requires patience but what we may lose in income should be more than offset by avoidance of capital loss. It is notable that the divergence between the high and low prices registered is, in many instances, equivalent to two to three years dividend payments.

Comments on List No. 1: This tabular statement shows a diversified list of representative companies whose preferred stocks are listed on the New York Stock Ex-

change, thereby assuring good marketability. The indicated income yields range from a low of 3.22% to a high of 4.64%. Each preferred stock is non-callable and this is an important factor in a market which has so many good preferred issues selling five to nine points above the redemption price. For example, Bucyrus Erie $7 preferred callable at 120 and selling at 128, General Motors $5 preferred callable at 120 and selling at 130, DuPont $4.50 prefered callable at 120 and selling at 127, etc.

Coments on List No. 2: These preferred stocks are all listed on the New York Stock Exchange. All but one has a stipulated redemption price and purchases should not be made, in any case, above the call price. The indicated income yields range from a low of 4.55% to a high of 7.69%. Too issues are legal for trust funds in the State of New Jersey, namely, American Crystal Sugar $6 preferred and Republic Steel $6 prior preferred. The latter issue is selling 8½ points below its redemption price of $110.

Prospects for railroad equipment stocks appear bright for some time to come and American Locomotive should do well in 1945. Earnings on the preferred stock for 1944 are estimated to be around $18 per share.

Packing companies are now enjoying substantial earnings and the demand for their products after the cessation of hostilities will undoubtedly be heavy. Armour & Co. (Ill.) prior preferred and Wilson & Co. $6 preferred should benefit from such prospects. Gillette Safety Razor has a good dividend record. It has paid dividends regularly on its preferred stock since it was issued in 1931, and, incidentally, dividends have been paid continuously on the common stock for 27 years.

Gimbel Bros. earned $17.30 on its preferred stock in 1943 as compared with $17.64 in 1942. In the first six months of 1944 it showed $8.23 as against $6.41 in 1943.

National Supply Co. manufactures oil and gas field equipment. It earned $17.40 on the prior preferred issues in 1943 and $7.78 in the first six months of 1944.

Worthington Pump & Machinery Corp. $4.50 prior preferred was reviewed and recommended in the Magazine of Wall Street issue of November 25. It is well protected by net current assets of $130 per share and dividend requirements are well covered. The two public utility preferred stocks, Public Service of New Jersey and Philadelphia Co., have paid dividends regularly since 1928 and 1930, respectively, and earnings should warrant their continuance.

To our readers who are interested in low price preferred stocks, there is shown a list of such equities which have fair to a good investment status. If one were to buy ten shares of each issue, it would involve an expenditure of approximately $3,075. The yearly return therefrom is $168.50, giving an indicated income yield of 5.47% The income yields range from 4.00% to 7.00%.

The best of these low priced preferreds include Deere & Co., Twentieth Century Fox Film, Raymond Concrete Pile, Columbia Pictures, Rayonier, Inc. and Foster Wheeler Corporation. The latter company is in a very strong financial position and its preferred stock is well protected by net current assets. The same may be said of Raymond Concrete Pile and Columbia Pictures preferred issues. Twentieth Century Fox Film $1.50 preferred is convertible into 1-¼ shares of common stock now selling at 27-½. The conversion feature begins to look attractive.

U. S. Lines new preferred was issued in 1943 and while it must be considered as a speculation, earnings should warrant regular dividend disbursement. However, appreciation in market price appears limited as it is selling near its call price of $10.50. Celotex $1.00 preferred was issued in 1943, five new shares of preferred being offered for each share of old $5 preferred stock, par value $100. Dividend requirements were covered 3.56 times in 1943 and while 1944 earnings are not as good as last year, they should at least be covered 2.5 times.

Since the status of the low-priced preferred stocks listed in our third table may be less well known to a good many investors, additional statistical information is given in the following summaries so that readers may reach their own conclusions as to whether or not these low-priced senior equities comply with individual portfolio requirements.

FOSTER WHEELER $1.50 Cumulative Prior Preferred Stock is callable at $26 per share. Net current assets alone on the prior preferred stock, as of December 31, 1943, amounted to $81.00 per share or over three times current market price and disregarding all fixed assets. The company cannot pay dividends on its common stock when net current assets are below $25.00 for each share of prior preferred stock outstanding. Earnings on the prior preferred in 1943 amounted to $35.20 per share as compared with $21.74 in 1942. In the first six months of 1944, $16.16 per share are shown.

List No. 1
High Grade Preferred Stocks

Issue	Dividend Rate	Call Price	1944 Price Range High	1944 Price Range Low	Approx. Market Price	Income Yield %
American Can Co. cum......	$7.00	N.C.	183	170½	$180	3.89
American Smelt. & Ref. cum.	7.00	N.C.	160	147	159	4.40
Corn Products Co. cum......	7.00	N.C.	184¾	173½	180	3.89
Eastman Kodak Co. cum.....	6.00	N.C.	193	175	186	3.22
Ingersoll-Rand Co. cum......	6.00	N.C.	164	158	160	3.75
Geo. W. Helme cum.......	7.00	N.C.	166	160	163	4.29
International Harvester Co. cum..................	7.00	N.C.	175½	165½	174	4.02
Liggett & Myers Co. cum....	7.00	N.C.	181⅜	174½	179	3.91
National Lead Co. cum......	7.00	N.C.	179½	164	176	3.97
National Biscuit Co. cum....	7.00	N.C.	176	165	175	4.00
Otis Elevator Co. cum......	6.00	N.C.	153	147	152	3.95
Pacific Tel. & Tel. Co. cum....	6.00	N.C.	162½	149	159	3.77
U. S. Gypsum Co. cum......	7.00	N.C.	180	170	179	3.91
Cluett Peabody Co.........	7.00	N.C.	152	145	151	4.64

List No. 2
Medium Grade Preferred Stocks for Appreciation and Income

Issue	Dividend Rate	Call Price	1944 Price Range High	1944 Price Range Low	Approx. Market Price	Income Yield %
American Crystal Sugar Co	$6.00	105	107	101½	$105	5.71
American Locomotive Co.	7.00	115	107⅞	80½	107	6.54
American Woolen Co...	7.00	N.C.	95½	67½	91	7.69
Armour & Co. (Ill.) prior pfd.................	6.00	115	103½	74½	103	5.83
Crown Zellerbach Co....	5.00	102½	104½	97½	104	4.81
Gillette Safety Razor....	5.00	105	90	69	88	5.68
Gimble Bros............	6.00	105	103¾	83	103	5.83
National Supply Co. prior pfd.................	6.00	105	93½	83½	90½	6.63
Remington Rand........	4.50	100	99¾	83⅞	99	4.55
Republic Steel prior pfd..	6.00	110	101½	87	101	5.94
Sharon Steel Corp.......	5.00	105	78½	63⅞	76	6.58
Wilson & Co...........	6.00	100	99½	80¼	98	6.12
Worthington Pump & Mach. prior pfd......	4.50	105	82½	47¾	79	5.70
Public Service of N. J...	5.00	N.C.	103¾	87½	102	4.90
Philadelphia Co........	6.00	110	106½	88½	104	5.77

Preferred stocks selling from $10 to $53 and paying regular dividends

Issue	Dividend Rate	Call Price	1944 Price Range High	1944 Price Range Low	Approx. Market Price	Income Yield %
United States Line	$.70	10½	10⅛	8⅞	10	7.00
Celotex Corp.	1.00	20	19½	17	19	5.26
Foster Wheeler	1.50	26	25	20	24½	6.00
Stokely Van Camp Inc.	1.00	21	17½	15½	17	5.88
Deere & Co.	1.40	N.C.	36⅞	32¼	35½	4.00
Rayonier	2.00	37½	34⅝	28	34	5.88
Twentieth Century Fox Film	1.50	35	34⅛	28¾	33½	4.48
Columbia Pictures	2.75	53	48½	39⅛	48	5.73
Reading Co. 2nd Pfd.	2.00	50	34	27¼	33	6.06
Raymond Concrete Pile	3.00	55	55	48	53	5.66

STOKELY VAN CAMP INC., formerly Stokely Bros. & Co. Merger with Van Camp's Inc. approved recently. The company is the second largest distributor of frozen foods through its Honor Brand division. Company's $1.00 cumulative prior prefered stock was issued in 1942 pursuant to recapitalization plan. For fiscal year ended May 31, 1944, it earned $8.55 on its preferred stock as compared wtih $4.88 in 1943. It is redeemable at $21 per share. Dividends paid regularly since issuance. On May 31, 1944, consolidated balance sheet showed total current assets of $15,424,933 as compared to total current liabilities of $3,881,971, with total net current assets of $11,542,973. Deducting $3,700,000 of 3½ Debentures due 1958, *net current assets* amounted to $7,842,973, or equivalent to $30 on each share of preferred stock. The equity junior to the prior preference stock is represented by 753,299 shares of common stock selling at $11 on the New York Stock Exchange or for a total value of $8,286,289. This is tantamount to about $31 per share on the prior preference issue. Price range in 1944: High 17½; low 15½; last 17, to yield 5.88%.

DEERE & CO. Cumulative $1.40 Preferred Stock is non-callable and the low income yield attests to its good quality. The company has no funded debt. In 1943, it earned $7.54 on its preferred stock as compared with $8.24 in 1942. Company had a very strong financial position on October 31, 1943, cash and U. S. Governments amounting to about $107,000,000. Net current assets were $108,941,806 and net assets per share of preferred $71.47 per share as against $51.71 on October 31, 1937.

COLUMBIA PICTURES CORP. Earnings on this company's preferred stock have been progressively better since 1942 and were as follows: Earned per share of preferred in 1942 $21.49; in 1943 $24.03; in 1944 $26.74. Company's balance sheet as of June 30, 1944 showed a very strong financial position, with total current assets of $21,053,386 as compared wtih total current liabilities of $5,690,146, and a current ratio of better than 3 to 1. Price range this year has been: High 48½; low 39⅛; last 48. At the latter price, indicated income yield is 5.73%. While it does not qualify as a high grade preferred stock, the concern's financial position is sound and preferred dividend requirements are being well covered. The stock is now selling five points below its redemption price of $53 per share.

RAYONIER, INC. This company ranks as one of the world's leading producers of dissolving pulps which are bleached sulphite pulps suitable for the manufacture of rayon and cellophane. Practically every rayon producer in the United States using the viscose process obtains a part or all of his requirements from Rayonier. Its postwar prospects are considered excellent. The preferred stock is callable at $37.50 per share. Company's consolidated balance sheet, as of April 30th, showed total current assets of $7,600,538 as compared with total current liabilities of $2,601,005, a ratio of about three to one. Unsecured promissory notes due 1947 were reduced from $3,000,000 to $2,500,000. While preferred dividends are being covered by a narrow margin, the company earning $2.70 per share on the preferred stock in 1944 as compared with $3.10 in the preceding year, the preferred stock at 34 yields an indicated income of 5.88% and appears to be a fair speculation in view of the bright prospects after the cessation of hostilities.

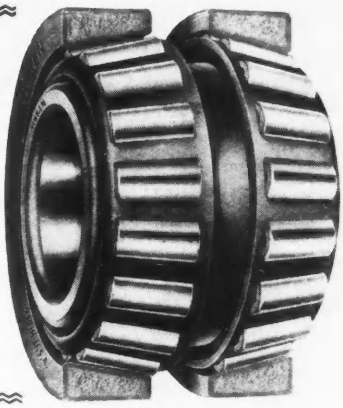
RAYMOND CONCRETE PILE manufactures concrete, steel and wood piles and concrete caisson foundations, and designs and constructs piers, bulkheads, docks and certain types of bridges. The company's consolidated balance sheet as of December 31, 1943, showed a good financial position with net current assets of $2,705,244, equivalent to approximately $125 on each share of preferred stock outstanding which is redeemable at $55 per share. It earned $21.56 in 1943 on its preferred stock as compared with $59.04 in 1942. The company's purchase fund provides that 10 per cent of net earnings after preferred dividends, not to exceed $100,000 in one year, is to be used to purchase preferred stock at not exceeding $52.50 per share. This provision should be helpful in stabilizing the price of the preferred.

TWENTIETH CENTURY FOX FILM CORP. This company is one of the industry's leaders having been formed in 1935 as a combination of the Fox Film and Twentieth Century Pictures. The consolidated balance as of December 25, 1943, showed net current assets of $36,980,814. Cash at that time amounted to $26,897,670. The $1.50 preferred stock is junior to the $4.50 prior preferred is convertible at any time up to and including the 5th day preceding the *(Please turn to page 327)*

Sample Illustrating Downward Trend of Yields Since 1942

Second Grade Rail Bonds	May 1 1942 %	Dec. 31 1943 %	Current %
Atlantic Coast Line 4½, 1964	7.1	6.5	4.7
N. Y. Central Cons 4s 1998	7.6	6.7	4.8
N. Y. Lack & West 4s, 1998	7.0	5.6	4.7
Northern Pacific 6s, 2047	8.8	7.4	5.8
Southern Pacific 4½s, 1969	8.2	6.8	5.0
South'n Ry. dev & gen 4s, 1956	5.9	5.4	4.1
Medium Grade Preferreds			
Allied Stores	7.5	5.2	5.0
American Sugar $7	7.6	6.3	5.4
Atchison $5	7.5	6.4	4.9
Bethlehem Steel $7	6.3	6.1	5.4
U. S. Rubber $8	11.9	6.1	5.4
U. S. Steel $7	6.3	5.7	5.2
Speculative Preferreds			
Columbia Gas & Electric $6	17.6	7.9	6.2
Crucible Steel $5	7.2	7.3	5.7
Erie $5	13.3	9.4	7.8
International Paper $5	9.5	7.2	5.5
Common Stocks (All above 7% yields in 1942)			
American Telephone $9	8.3	5.7	5.4
Anaconda Copper $2.50	10.3	10.0	8.9
Borg-Warner $1.60	7.1	4.5	4.0
C. & O. $3.50	12.0	7.7	6.9
Consolidated Edison $1.60	12.8	7.1	6.6
Endicott-Johnson	7.5	5.2	4.4
May Dept. Stores $3	9.0	5.4	4.6
J. C. Penney $5	8.7	5.1	4.6
Pennsylvania Railroad	12.1	9.1	8.0
Woolworth	7.1	4.3	8.7

ROLLER BEARINGS



A Real Growth Industry

BY HENRY L. BLACKBURN

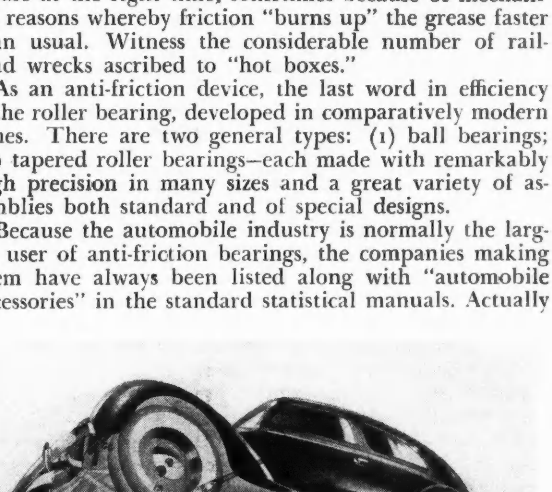
VEHICULAR transportation was born when some ingenious fellow of very ancient times built two crude wooden wheels and mounted an axle through their hubs. But after pushing the cart a short distance he found it increasingly hard to make the wheels turn and he noticed that some invisible thing had made the axle very hot where the wheels revolved upon it. The invisible thing, of course, was friction. And the remedy for it was grease, derived from animal fats in olden days and later from petroleum.

The battle against the destructive and costly drag of friction is ceaseless wherever metal revolves against metal—in automobiles, trucks, tractors, buses, railway cars and locomotives, airplane engines, factory machines; also in the family sewing machine, electric fan motor, lawn mower and various other mechanical things.

Grease is indispensable but as an anti-friction agent it is not 100 per cent efficient at best. Many failures occur, sometimes because someone has forgotten to apply enough grease at the right time, sometimes because of mechanical reasons whereby friction "burns up" the grease faster than usual. Witness the considerable number of railroad wrecks ascribed to "hot boxes."

As an anti-friction device, the last word in efficiency is the roller bearing, developed in comparatively modern times. There are two general types: (1) ball bearings; (2) tapered roller bearings—each made with remarkably high precision in many sizes and a great variety of assemblies both standard and of special designs.

Because the automobile industry is normally the largest user of anti-friction bearings, the companies making them have always been listed along with "automobile accessories" in the standard statistical manuals. Actually the manufacture of bearings is an industry in itself, serving many industries other than automotive, essential out of all proportion to its physical size and its normal annual volume of business—in which respects it is in a way similar to the machine tool industry—and having its own trade association.



Timken photo

Application points of roller bearings in a modern automobile

For several reasons the stocks of the leading companies in this field merit the consideration of investors; (1) It is a "growth" industry, for the use of anti-friction bearings—relative to total industrial activity and transport volume—is still subject to long-term expansion, especially in railroad rolling stock and certain types of machinery; (2) there appear to be very large accumulated civilian needs, both domestic and foreign, to be filled after the war; (3) despite competition among themselves, it is an industry in which the stronger companies have demonstrated ability to earn an excellent rate of return on invested capital; (4) these companies have far above average earnings and dividend records, even though the chief markets served have been highly cyclical.

Before undertaking comparative analysis of the bearings makers whose securities are available to the investing public, some additional brief observations on the industry are in order. Its wartime volume has been around a peak of $400,000,000 a year which is roughly double the highest pre-war output. In the opinion of the trade—as recently voiced by Mr. H. O. K. Meister, president of the Anti-Friction Bearing Manufacturers Association and general manager of the Hyatt Roller Bearings Division of the General Motors Corporation—a return to previous sales levels is improbable and volume for several years after the war is expected to range between $330,000,000 and the wartime level of $400,000,000.

This optimistic view is based partly on the post-war outlook for high volume in automobiles, farm machinery and household apparatus. It is based further on prospective large expansion in use of bearings in railroad locomotives, passenger and freight cars; and in textile and other machinery. The possibilities for improved performance and/or greater economy in operation through use of the most modern anti-friction bearings are enormous.

Bearing on this point, Mr. Meister observed that if farm equipment were re-engineered to make maximum use of anti-friction bearings tractors could operate at speeds of from 6 to 12 miles an hour instead of present rate of 3 to 4 miles an hour, affording a much better chance of completing ploughing or other mechanized operations during favorable weather. As for railroads, the Timken Roller Bearing Company believes that some-

Statistical Comparisons

(Figures in millions of $ except where otherwise indicated)

	Bower Roller Bearing	Marlin—Rockwell	Timken Roller Bearing
Capitalization			
Debt	None	None	None
Preferred Shares (No. of)	None	None	None
Common Shares (No. of)	300,000	339,245	2,421,380
Sales			
Latest Year	16,037	**18,434	108,674
1939	5,816	**2,498	40,056
Per Share, latest year	$53.46	$54.37	$44.88
Income Figures			
Per Share Net, latest year	$3.61	$9.13	$2.66
Per Share Net, 1939	3.23	4.89	3.02
Op. Margin, latest year	31.0%	**	18.4%
Op. Margin, 1939	19.7%	**	21.6%
Net Profit Margin, latest year	6.7%	**	5.9%
Net Profit Margin, 1939	16.6%	**	18.1%
Per Share Dividends			
Indicated Current Rate	$2.50	$5.00	$2.00
Paid 1939	2.00	4.00	2.50
Current Yield	5.7%	7.5%	3.9%
Net Work. Capital			
Latest Year	3,038	5.233	29,393
Latest Year Per Share	$10.13	$15.43	$12.14
1939	2,228	5,142	25.424
1939 Per Share	$7.43	$15.17	$10.53
Book Value Per Share	19.08	31.42	22.25
Current Ratio			
Latest Year	1.7/1	1.3/1	4.0/1
1939	3.9/1	8.4/1	7.1/1
Ratio Inventory to Current Assets			
Latest Year	25.7%	21.6%	49.7%
1939	32.8%	25.0%	23.2%
Ratio Cash to Cur. Liabilities			
Latest Year	92.5%	52.4%	58.2%
1939	55.4%	381.9%	165.4%
Plant & Equipment, Latest Year	1,263*	3,921	19,520
Plant & Equipment, 1939	1,906	1,637	15,991
Reserves, Latest Year	350	1,272	6,257
Reserves, 1939	50	160	1,712
Surplus, Latest Year	3,873	9,435	41,186
Surplus, 1939	2,881	7,083	34,980
Recent Price—Earnings Ratio	12.1/1	7.2/1	19.0/1

*Excluding emergency facilities of $772,364

**Sales not stated, figures are gross profit; Ratios are not computed.

thing like 100,000 new freight cars a year may be equipped with roller bearings, creating an annual volume of between $50,000,000 and $60,000,000. Adoption of roller bearings for passenger cars and for freight and passenger locomotives on a 100 per cent basis is believed eventually assured.

The initial cost of equipping a locomotive with roller bearings is about $12,000 but resultant economies more than make such an investment worth while. Tests have proven that locomotives so equipped can operate an average of 150,000 miles a year with a maintenance cost of 12 cents a mile, compared to an average of only 80,000 miles a year and maintenance cost of 30 cents a mile for engines equipped with ordinary bearings.

In this war the German bearings plants—notably those concentrated around Schweinfurt—have been prime targets for Allied bomb attacks, and Japanese plants will similarly be reduced to shambles. As a result the post-war foreign demand for American bearings is expected to be exceptionally large for some time, though it will of course have no monopoly as Sweden, Switzerland and England are large makers of bearings.

Although some of its customers have reconversion problems, the bearings industry itself has none. The wartime change is far more one of volume than of difference in products made. Substantial plant expansion in recent years—much of it already written off under 5-year amortization out of taxes—should be readily usable for post-war civilian production. The temporary transitional shrinkage in volume is expected to be moderate in scope and duration.

Companies which are exclusively or mainly makers of anti-friction bearings and in which there is a public stock ownership are limited to three: Timken Roller Bearing, Bower Roller Bearing and Marlin-Rockwell. There are others privately owned including SKF Industries and with this exception they are mostly small. General Motors makes both roller and ball bearings, the latter in its New Departure division, the former by the Hyatt division as previously indicated. Naturally, for the purposes of this study, General Motors is not considered to be a "bearings company" as it makes so many other things and in much larger volume.

It is perhaps desirable to have a brief look first at Marlin-Rockwell and avoid direct statistical comparison between it on the one hand and Timken and Bower on the other hand. The reason for this is that, while Marlin-Rockwell was listed on the New York Stock Exchange for many years, the company delisted the issue in 1938, the stock has since been available only over-the-counter, the management does not issue interim reports, and the latest annual report and balance sheet presently available are for the year 1942. Evidently the company does not consider public interest in its stock as important to it and, in the absence of even reasonably timely reports, any over-the-counter buyer of the stock is required to take it with a considerable element of faith.

On the past record it must be conceded that faith may well be warranted for Marlin-Rockwell has demonstrated impressive earning power. It experienced deficits in only two years of the Big Depression and they were nominal: 6 cents a share in 1931 and 39 cents a share in 1932. Even in so mediocre a year as 1935 it earned $3.28 a share; in 1937 $5.60 and $2.13 in the depression year 1938. The 1929 figure of $7.43 was passed by 1941 and in 1942, despite high wartime tax rates, a new high of $9.13 was attained, this figure being before renegotiation, however.

Good Dividend Record

The dividend record has been equally good, with no omissions in the worst depression years and with the $1 payment of 1932 the lowest of modern times. Highest pre-war distribution was $5.75 in 1936. It was $6 in 1940-1941 and has been $5 thereafter. Before the war this company's financial liquidity was much above average with a current ratio of 8.4 in 1939. With the temporary strain on working capital due to swollen war volume, this had been reduced to 1.3 by the end of 1942, at which time the net working capital amounted to $15.43 a share and the book value to $31.42.

The capitalization consists solely of 339,249 shares of common stock of $1 par value. Recent quotations on the stock were 62 bid and 65 asked, comparing with 1937 bull market high of 51¾ when the stock was listed and low of 18¾ in 1938. Extreme range was 1929 high of 89⅞ and 1932 low of 5¾. Operating income for the latest year reported was over five times that of 1929.

Doing well under war conditions is not a new experience for Marlin-Rockwell. Before the First World War it was a small Connecticut manufacturer of firearms, mainly sports and target rifles, the name being Marlin Fire Arms Co. Out of war profits made on small arms

and machine guns it subsequently acquired the Standard Roller Bearing Company which had managed to go into bankruptcy although it was formerly the country's largest maker of ball bearings, the Rockwell-Drake Corp., also a maker of ball bearings, and the Braeburn Steel Co., maker of high grade tool and bearing steel. On that foundation, Marlin-Rockwell became the country's leading producer of ball bearings. Its plants are located in Plainfield, Conn., Jamestown, N. Y., and Chicago.

Timken Roller Bearing Company has by far the largest dollar volume of business in the field of anti-friction bearings, specializing, as does Bower, in tapered roller bearings rather than ball bearings. Important "sidelines" are manufacture of seamless tubing, electric furnace steel and rock bits for use in excavating, mining and quarrying. Bearings are understood to account normally for over half of sales and some two-thirds of profits.

Timken was started in 1898 as the Timken Carriage Works but soon became interested in the automobile market as a maker of axles and bearings. In 1904 it disposed of its axle business to a new company incorporated as Timken-Detroit Axle Company, with which it was not thereafter identified; changed its own name to the present title and concentrated on bearings.

Relative Position

Bower Roller Bearing Company also has a respectably long history, having been formed in 1910 as successor to a company started in 1907. The most obvious difference between the two companies is that of size and the fact that Bower has no diversifying sidelines. Timken's dollar volume is roughly seven times that of Bower and has had about the same proportionate wartime expansion. Its total assets of about $63.5 million compare with just under $11 million for Bower. Its net working capital of $29.4 million is nearly ten times greater than Bower's most recent figure of $3,038,000. Bower has one plant, strategically located in the motor capitol: Detroit. Timken has five palnts, all in Ohio, with the largest at Canton.

But don't jump to the conclusion, on the basis of these distinctions in size, that Bower is merely a weak "runner-up." It is not. Its competitive performance, and its earnings and dividend record, have been excellent. In some respects, in recent years, its results have been superior to those of Timken. And if one concludes that, in over-all investment status, Timken is the better stock of the two the question must still be answered whether it is as *much* superior as the difference in current market valuations discounts.

There are 2,421,380 shares, no par value, of Timken outstanding or over six times as much as the 300,000 $5 par value shares of Bower, neither company having bonds or preferred shares ahead of the equity. At recent market price of 42, the total valuation of Bower is $12,600,000; while that of Timken at recent market price of 51 is $123,490,380 or nearly ten times greater.

Timken is priced at about 19 times last year's net per share, Bower at 12.1 times. Timken is priced at 11.3 times its highest pre-war net per share since 1929, which was $4.49 in 1937. Bower is priced at 10.3 times highest pre-war net which was $4.07 per share, also in 1937. For the five pre-war years 1935-1939, Timken earned an average of $3.01 per share and is now priced at 16.9 times that figure. Over the same years Bower earned an average of $3.03 per share and is now priced at about 13.8 times that figure.

Good as Timken has been in the resistance which earning power has shown to depression conditions, Bower has been still better and therefore must have been superior in terms of ability to control costs. In its worst depression year—1932—Timken had a deficit of 20 cents a share. In the same year—also its poorest—Bower had a profit of 67 cents a share.

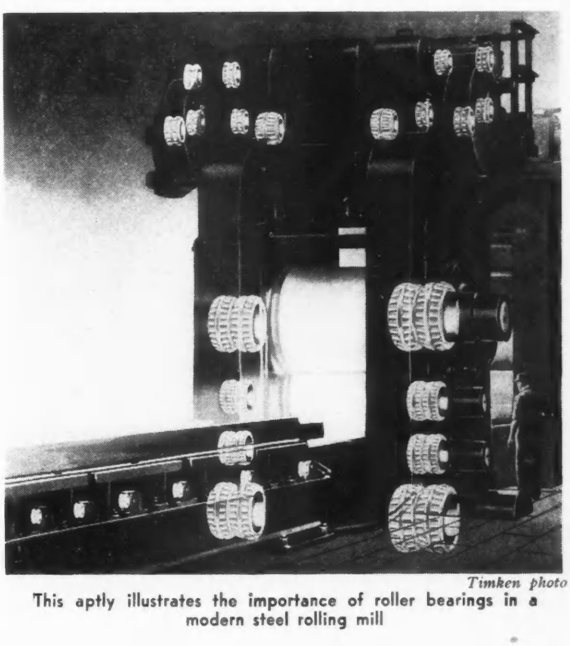
To cite the most recent depression year, Timken earned 59 cents a share in 1938, while under the same conditions Bower netted $1.50 a share.

As compared with the old landmark year 1929, Bower has moved up in earning power, while Timken has moved down. In 1937 Bower's net income was nearly five times larger than in 1929, while Timken's was about 28 per cent less than in 1929. The year 1942 is the latest for which net income figures are available after renegotiation. For that year Bower's net income was nearly four times larger than in 1929, Timken's was about 56 per cent less than in 1929.

Perhaps the most satisfactory and comprehensive measure of comparable efficiency is the percentage return earned on invested capital. In this respect the significant fact is that Bower was far behind Timken in 1929 but both caught up with it and passed it in subsequent years. In 1929 Timken earned 30.8 per cent on its capital, Bower only 15 per cent. In 1937, Bower earned 30.5 per cent, Timken only 25.5 per cent. In 1942, after renegotiation, Bower earned 17 per cent., Timken 15.6 per cent. For 1943, before renegotiation, the figure was 16.7 for Bower, 14.3 for Timken.

On the basis of profit per share we have noted earlier that Bower's earning power held up better in depression years. The same is true on the basis of per cent earned on invested capital. For instance, *in 1932* Bower earned a remarkable 8 per cent, Timken minus 1.2 per cent. And in 1938 Bower earned 11 per cent, against only 3.4 per cent for Timken.

Other pertinent statistical comparisons are presented in the accompanying table. It will be observed that Timken is the superior in financial strength, with current ratio of 4 to 1 (current assets times current liabilities) compared with only 1.7 for Bower. In the pre-war year 1939 the ratio was (*Please turn to page 324*)



Timken photo

This aptly illustrates the importance of roller bearings in a modern steel rolling mill

AROUND THE WORLD

WITH JOHN LYONS

French economic dualism . . . Indian business potentials . . . Central European rehabilitation problem . . .

Courtesy Dumont Television

WHILE France is struggling against political dualism, the trend towards economic dualism is becoming increasingly pronounced. We do not know, as yet, where the political crisis will ultimately lead. Leftist pressure continues strong and the results of de Gaulle's trip to Moscow may be illuminating. But on the wider issues of economic policy, there is today an unmistakable trend towards state socialism.

The demand for nationalization of French key industries has been widespread and insistent ever since the first days of liberation. But now, the Left very rarely propagates socialization; instead, it demands that the "purge" be applied to the "two hundred families" who own France's key industries, thus merging the purge with the concept of nationalization. The Left enjoys strong ascendence. The ranks of the Right may still hope that the present storm of the Popular Front is more noisy than dangerous but is is no longer sure of this.

Meanwhile, nationalization of French key industries has become an integral part of the Government's economic program as recently adopted by the Council of Ministers. In a programmatic declaration, the future structure of the country's economy is blueprinted in three distinct tiers, one nationalized, another state controlled and the third relatively free of official interference or control though undoubtedly subject to broad directional influence.

The first tentative pattern of how nationalization is to be handled has already emerged with an outline of the scheme for taking over the coal fields of Northern France which normally produce two-thirds of total French coal output. These fields henceforth will be state-owned and state-controlled but financially independent in the sense of being self-supporting and managed along business lines; that is, they are to have administrative freedom of private enterprise. The management will be chosen by the Ministry of Public Works and the State Treasury is to advance the companies taken over two billion francs as working capital. To the private companies whose property has been expropriated, the newly organized State company would pay a monthly sum equal to eight francs per ton on the average output for the years 1938 and 1939.

This is supposed to suffice to pay off the debts of the private concerns and permit their liquidation. The entire arrangement, it must be added, is provisional and will be replaced, it is hoped, within a year by a final settlement that will fix the ultimate compensation for the private owners.

However, nationalization of the coal industry is only a starter. Most key industries will eventually meet the same fate with electric power high on the list and the steel, automotive and aviation industries likely candidates.

In the financial sphere where the inflationary problem is paramount, proposed measures are less drastic, mainly in the interest of political stability. Yet the Government appears determined "to reabsorb progressively" the excess money supply. It is hoped that this can be largely accomplished through the recently announced liberation loan, a perpetual 3% bond issue designed to draw out hoarded bank notes so as to shrink the enormous note circulation and thereby obviate the necessity of drastic devaluation measures such as essayed, with indifferent success, in Belgium. Other fiscal measures will be supplementary. Significantly, the Government also decided upon strict measures "to draw up inventories of fortunes and illicit profits," an implied threat of confiscation of profits made by collaborators or black marketeers. This task will not be easy.

Stern leveling measures are predicted to insure industrial recovery. Absolute priority will be granted for restoration of the transportation system to expedite general industrial recovery, and facilitate and speed the importation and distribution of badly needed food supplies. Basic industries, such as machine tool and raw material industries, come next in order to spark the all but dormant manufacturing industries. This will be a long up-hill pull. Bare of supplies now, plants cannot run and there is also a severe labor shortage which will militate against rapid recovery in many areas.

There is no question but that the structural reforms under way, and yet to come, will be most far-reaching in effect, tantamount to complete reorganization of French economy along virtually state socialistic lines.

* * *

U. S. business has a champion in the Indian industrial groups who are looking to American industry to supply them with the tools, equipment and materials

for large-scale industrialization of India, provided our prices are competitive with those of other countries.

These men from India want not only tools and equipment but, foremost perhaps, our production methods. They are particularly interested in post-war consummation of the so-called Bombay plan for large scale steel expansion, a plan in existence for some time but which had to be tabled due to the war and the crisis for home rule.

India now has a steel capacity of nearly two million tons of raw steel annually, twice pre-war volume. Practically the entire post-war expansion as now envisaged is to be for home consumption, to feed the general expansion of India's entire industrial system. The Bombay plan calls for an addition of from five to seven million tons steel making capacity, and Indian industrialists feel confident that the program will go through. It cannot, though, without our help, not only as to materials and equipment but, even more important, our up-to-date methods and techniques. If Indian businessmen have anything to say about it, they will obtain this aid from us, meaning big orders for American industry. Empire policies, as in the past, may interfere but this time, we hear, Indian industrialists are willing to put up a fight for their right to buy in the United States. There will be no lack of dollars if London discontinues war-time pre-emption of the bulk of dollar balances accruing to Indian exporters from an active and favorable trade with this country.

* * *

Argentina, looking towards the end of the war, is backing down on anti-British actions, trying to set the stage for improved economic relations with Britain at our expense. She is hoping that Britain after the war can be induced to buy all, or at least a major share, of her exportable surplus food products.

Such a contract, to run four years, is said to be under negotiation; if consummated, it would go far towards removing Argentina's doubt over export markets during the immediate post-war period. Already Britain has signed agreements with Australia and New Zealand to purchase post-war surplus meat and dairy products; Argentina, with a large share of the world's food production for sale, would like to join this marketing arrangement.

All this is not very reassuring to the American farmer who sees a large part of his export market threatened by British trade pacts with other countries. Any agreement between Britain and Argentina would intensify his problems. Important particularly for mid-western farmers is Argentine ascendance in exportation of pork products; such exports this year will total 160,000 tons against 129,000 last year and only negligible quantities before the war.

Elsewhere, too, Argentina is looking ahead. She has ordered 100,000 tons of wheat and 5,000 tons of meat delivered, as a gift, to France's account at Buenos Aires "in token of the traditional friendship of Argentina towards the French people." A very astute move, with an eye towards future business!

• • •

Businessmen in close touch with the Italian situation see little prospect of any worthwhile post-war trade with Italy unless that country is to receive either a substantial loan from us or extensive commercial credits. Italy's economy is prostrate. She will have but limited foreign balances to draw upon when she regains control of her assets abroad, and she will have to meet heavy occupation costs. Even in normal times, the country's export potential is small; what with reconstruction and rehabilitation demands, it will continue low for an indefinite period.

Immediate prospects of solving the Italian economic problem are not good. The military campaign there is still going on with most of the country's important industrial centers in enemy hands. Destruction has been severe and widespread. The political situation is in a hopeless tangle and no improvement or even clarification is likely until the industrial regions in the North are liberated. These have always been a hotbed of radicalism. Under the circumstances, this is not an opportune time for adoption of any long-term policy towards Italy. Also, were an attempt made to further Italy's economic reconstruction before similar measures are pushed in other European countries which were victims rather than partners of Axis aggression, repercussions might indeed be serious, affecting adversely Allied and American prestige. Ultimately, of course, Italy's economic plight will require attention eve nthough her ability to pay, or rather repay, will be far less than before the war. But for the moment, prospects are slim for anything that would go beyond mere emergency measures.

* * *

The problem of Central European rehabilitation, pushed into the background by larger issues, is nevertheless being pondered realistically by some leaders of the respective countries who recognize the necessity of a strong bond of economic union if stability is to supersede the traditional dissentions in that part of the world. The fate of over 100 million people is at stake. The question is: Can they cooperate and prosper, thereby insuring their independence and uprooting the cause of future wars?

Essentially it is an agricultural problem. 70% of the 110 million inhabitants of Czechoslovakia, Poland, Romania, Hungary, Bulgaria, Yugoslavia and Greece are peasants. If they can be assured of a decent living, the Central European problem should find a solution, the big neighbors willing.

That conclusion prompted a dozen leading Central Europeans during their exile in London to get together and formulate a program which is now published by the Royal Institute of In- *(Please turn to page 324)*

Nesmith Photo

The Forum in Rome

Recapitalization Plans Analyzed

What Action to Take

BY EDWIN A. BARNES

PROGRESS made by the Securities and Exchange Commission in enforcing Section 11 of the Public Utility Holding Company Act of 1935 (now over nine years old) has been highly irregular. A number of years of preliminary investigation, experimental policy and judicial confirmation were required before the Commission was able to go into "high gear". By that time the manpower shortage exercised its retarding effect.

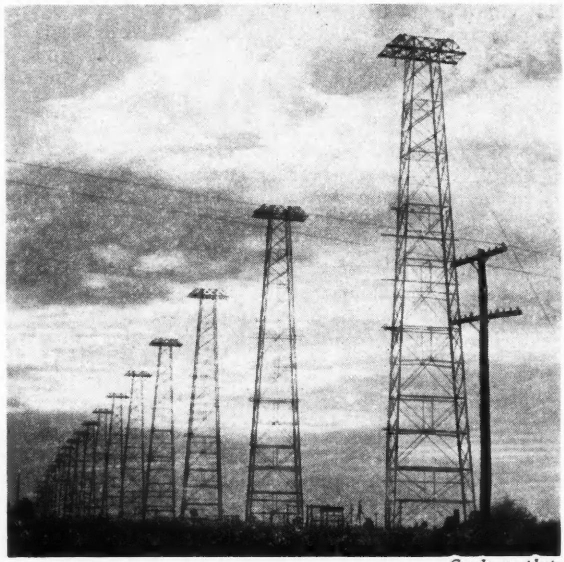
However, in recent months a number of long-developing recapitalization plans have made substantial progress, and this has been reflected in an active and advancing (though selective) market in senior holding company securities.

Common stocks of the "leverage" type have generally failed to reflect the substantial gains in holding company bonds and preferred stocks during 1944, however, as it is now generally realized that most of these issues will participate only to a limited extent in recapitalization plans. In other words, their leverage feature is a thing of the past. Moreover, it remains a possibility that the Supreme Court might uphold the "absolute priority" views of Judge Healey, dissenting minority member of the SEC. If this development should occur, holding company common stocks (where there are heavy preferred arrears) might be wiped out in future just as most common stocks of bankrupt railroad companies have been eliminated.

United Corp., over a year ago, under the management of newly-elected President William Hickey (at one time an SEC official) began formulating plans for gradual retirement of the preferred stock. Eventually it was hoped these plans would develop some equity for the 14,529,000 shares of common stock. At that time the common was "under water" but Mr. Hickey had earlier estimated that, over a period of time, it might acquire a value of $6 a share (the range since 1928 has been between 75½ high and 3/16 low). After more than a year's delay, the first step in the plan finally crystallized, being recently approved by the SEC. Since the plan is a voluntary one, it does not require court confirmation as do the majority of recap plans after SEC approval.

Briefly, preferred stockholders are offered 1.8 shares of Philadelphia Electric common and $6 cash in exchange for 1 share of preferred, but only about half of the total preferred can be tendered under the offer. Philadelphia Electric has recently been selling around 20½, and pays a dividend of $1.20, making the yield close to 6%.

At current prices the "package" would be worth nearly $43, though United Corp. continues to sell around 40. Possibly the discount is due to fears that a court injunction against the plan might be granted to Randolph Phillips. Mr. Phillips sometime ago waged a proxy battle against Mr. Hickey, and he has criticized the present plan before the SEC. However, in our opinion, it seems doubtful whether he can hinder the present plan, which appears to be a constructive effort to comply with the Holding Company Act. Disposal of Philadelphia Electric stock (technically a subsidiary) is necessary to comply with the Act's geographical requirements.



Gendreau photo

One of the power lines criss-crossing the country

At some later date, it has been surmised, *Public Service of New Jersey*, in which United Corp. has a very large interest (its original holdings were supplemented by the distribution of United Gas Improvement's holdings, in the partial liquidation of that company) may recapitalize. The request by the Federal Power Commission and the New Jersey State Commission for a large write-down in plant account has been taken care of by setting up a substantial reserve out of surplus. This appears to be a temporary solution. Eventually, it is thought, the company migh find it advisable to merge with its principal subsidiary, Public Service Electric & Gas. There are a number of non-callable system securities, bearing high interest coupons or dividend rates. If a technical dissolution of Public Service of New Jersey were consummated as part of any such plan, the four preferred stocks (8%, 7%, 6% and $5) might be retireable at par, though it is probable that the perpetual 6% bonds woud have to receive better treatment (currently selling around 150). Space does not permit exploration of the ramifications of such a merger-recapitalization-refunding plan, but it is thought that it might work out advantageously for the common stock of Public Service, which has been severely depressed in recent years by the heavy tax load the company has been carrying. It is impossible to estimate the timing of the plan, should it develop, as the SEC has not yet indicated its interest in the matter.

After long delays, the recapitalization program of one of the largest holding companies, *Standard Gas & Electric*, was recently approved by the SEC, following a num-

ber of modifications in the original plans. It is now before a Federal court in Wilmington for approval. Such confirmation is part of the general program envisaged under the Utility Act, since the SEC itself has insufficient power to force "hold-out' security holders to accept the terms of a plan. The Federal courts thus far have, in general, "played ball" with the SEC by approving plans without long delays. However, if any security holders wish to carry the fight further and have funds to pay legal bills, they can usually seek a review by a higher Federal court.

No Delay Likely

While this occurred in the United Light & Power case, it appears unlikely with Standard Gas and hence consummation of the plan might be expected within a few months. The SEC in its decision estimated future normal earning power of the new common stock at $1.12 a share. The $7 preferred stock receives 10½ shares of new common under the plan, and is currently selling at 82, which would make the new common worth about 7¾. Such a price would be about 7 times the estimated postwar share earnings. While the preferred has more than doubled in value during 1944, the indicated price-earnings ratio (based on future, not present earnings) seems rather low in comparison with ratios of integrated holding companies. In other words, over the longer term there would seem to be further appreciation possibilities, assuming that the SEC estimate eventually proves correct and that market conditions remain as favorable as at present. In view of the big rise in the stock, however (it sold as low as 6 in 1942), interim fluctuations might be substantial.

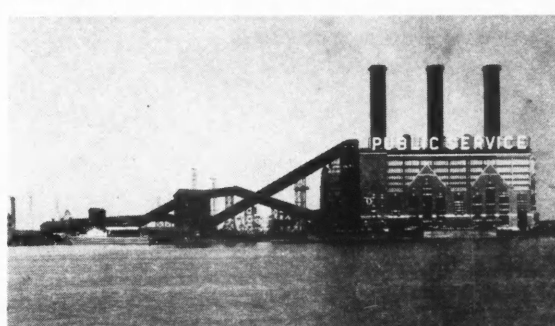
The plan of *United Light & Power Company*, whereby the preferred stock would receive five shares of United Light & Railways new common, seemed likely to go into effect nearly two years ago, but there have been various delays in the SEC and in the courts. The case is now before the Supreme Court and a decision appears possible within a few weeks. The issue before the court is merely whether the preferred should receive 95% or 100% of the assets (which will consist only of United Light & Railways common). The suit was brought by Otis & Co., former underwriters of the stock and currently owners of an odd lot.

While the earnings have declined from the high levels of 1942, conversely Power preferred has advanced to 66 from the low of 3½ in 1942. Since United Light preferred is now selling at nearly 20 times its 1942 low price, it has obviously gone a long way toward discounting the recapitalization plan. The United Light & Railways system (following consummation of the present plan) will not be fully integrated, but it has a conservative capital set-up. For the 12 months ended September 30th, Railways reported earnings for its common stock of $4,578,811. On the basis of the split-up in the common which will accompany consummation of the Power plan, this is equivalent to about $1.45 a share. Railways common is currently quoted "when issued" around 14, or nearly 10 times these current share earnings. This, it will be noted, is higher than the Standard Gas ratio but the latter was based on future rather than present earnings.

Niagara Hudson Power some time ago proposed a general system reorganization and merger, but the Public Service Commission of New York disapproved the plan, principally because it did not make sufficient allowance for depreciation reserves. Now a move has developed to separate the sub-holding company system, controlled by Buffalo, Niagara & Eastern Power (Benny) which makes up about one-third of the system on the basis of assets. B.N.&E. has outstanding a substantial amount of first and second preferred stocks, hence the value of its common stock held by Niagara is debatable. The company has paid no dividends on Class A or common (both held by Niagara) for about 7 years, and preferred stocks were discontinued some two years ago as a result of a subsidiary property write-off ordered by the FPC.

Holders of the second preferred stock, therefore, appealed to the SEC for a separate reorganization. Both they and Niagara Hudson have filed plans for apportioning a proposed new issue of common stock to the $1.60 preferred on one hand, and the Class A and common stocks (together) on the other hand. In prewar years, the Class A and common stock had a combined claim on earnings averaging about 38% of the amount available for all three stocks. On October 3rd, reorganization plans were filed with the SEC by both B.N.&E. and Niagara, the former suggesting that only 9% of the new common be given to Niagara while the latter proposed that it receive 35%. Some compromise between the two plans seems likely.

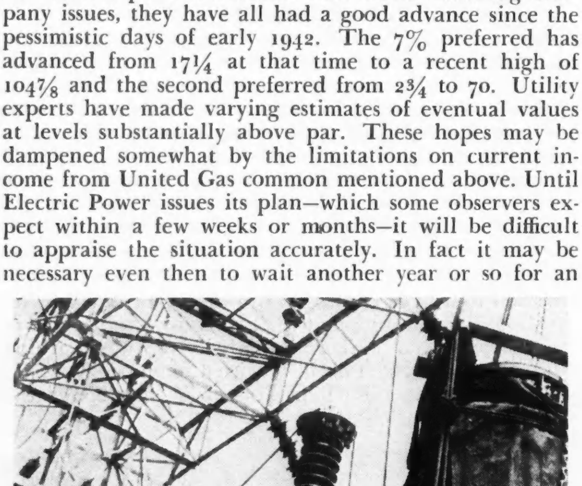
Postwar earnings for the new common stock have been estimated by consulting engineers as high as $7,500,000 (on the basis of the present 40% corporate income tax). This estimate is far above present levels and appears to make generous allowance for refunding savings, etc. However, assuming that it could be realized, and that "Benny" $1.60 preferred should obtain as high as an 80% equity interest, this would mean $6,000,000 for the holders of the $1.60 preferred. Converted into share earnings on the present stock, it would be equal to nearly $3 a share. The stock is currently selling around 20, so that (considered as a common stock) the price-earnings ratio (less than 7) appears to be on the conservative side. Electric-gas operating company stocks sell currently to average about 13 times earnings. Of course it is true that "Benny" is a holding company, but it is proposed to merge it with the operating subsidiaries, and as a sound operating company it might in time be entitled to a price-earnings ratio of 10 or 12. However, it should be emphasized that this is conditioned on realization of a rather optimistic postwar earnings estimate. Also the Public Service Commission of New York may again raise difficulties over the depreciation reserve question.



Power plant at tidewater serving the highly industrialized area of New Jersey

The recapitalization plan for *United Gas Corp.*, long before the SEC in one form or another, has now been approved by the Commission and confirmed by a Federal Court. While it still remains possible that an appeal to a higher court may be taken, the company has proceeded with the plan, selling $100,000,000 new bonds to insurance companies and paying about $44,-000,000 to Electric Bond and Share for surrender of all that company's claims against United Gas. Electric Power & Light, as holder of all the second preferred (with substantial arrears) and a large block of the common, is to receive 10,108,101 shares or about 95% of the new common. The old common (held by the public) is exchangeable for new common in the ratio of 1 for 6, and is currently selling around 9½. Pro forma earnings on the new common are estimated at about 70c but of this amount some 40c might be required for a sinking fund on the new bonds, apparently leaving only about 30c available for dividends. However, the company is very strong in cash and when this cash is put to work earnings may improve. Also, the sinking fund will eventually retire a large part of the bonds which, of course, will strengthen the position of the common stock.

Completion of the United Gas plan—assuming that the company does not run into legal snags over an appeal—would pave the way for a recapitalization plan for *Electric Power & Light,* whose parent earnings have remained small because it has drawn no income from United Gas. There are large arrears on the first preferred and second preferred stocks. Like similar holding company issues, they have all had a good advance since the pessimistic days of early 1942. The 7% preferred has advanced from 17¼ at that time to a recent high of 104⅞ and the second preferred from 2¾ to 70. Utility experts have made varying estimates of eventual values at levels substantially above par. These hopes may be dampened somewhat by the limitations on current income from United Gas common mentioned above. Until Electric Power issues its plan—which some observers expect within a few weeks or months—it will be difficult to appraise the situation accurately. In fact it may be necessary even then to wait another year or so for an expression of SEC views before value estimates can be refined.



Westinghouse photo

Giant compressed air circuit breaker, largest ever built, protects part of an important power system in Western Pennsylvania

The *American & Foreign Power* plan of recapitalization (submitted jointly to the SEC by that company and its parent, Electric Bond and Share, on October 26th) was described in the Magazine of Wall Street issue of November 25, page 188. Since that date, the second preferred stock has enjoyed a recovery of about half its earlier decline, apparently on hopes that the SEC will alter the plan to favor public holders of the second preferred (who own only about one-seventh of the issue). In other words, it is suggested that Electric Bond and Share, which had already accepted some reduction of its interest, should be forced to make a further subordination. As indicated in the previous article, the question of the relative interests of the public vs. Bond and Share are extremely complicated, but the fact remains that Bond and Share has sunk a very substantial amount of cash into the enterprise, receiving a return on only part of its investment. The entire matter remains in the hands of the SEC for clarification. The present price of the second preferred appears on the optimistic side as compared with the price of the first preferred, which after all is entitled to considerable priority of treatment even under SEC formulas.

Commonwealth & Southern

The *Commonwealth & Southern* plan, including its revised formula of 85-15 for distribution of assets to the preferred and common stocks (it was originally 80-20) appears to be running into snags and may prove rather slow. Eventually the experts appraise the possibilities for the common stock at well over current levels, but how long it will take to realize higher levels, based on consummation of the plan and reduction in taxes, is anybody's guess. Commonwealth is a very heavy payer of excess profits taxes and may benefit by hoped for removal of this tax after the war.

Engineers Public Service made a very advantageous move in acquiring Virginia Public Service from the Associated Gas system. Earnings have improved rapidly, and still appear to be on the upgrade. Definite plans for completing integration are not yet worked out.

Illinois Power, whose securities sold at low levels two years ago, (preferred, dividend arrears certificates and common) has substantially improved its affairs by a big bond refunding and the sale of one of its properties. It is now pressing a huge damage claim (for mismanagement) against its parent, North American Light & Power, which is affiliated with North American Co. Should it win this claim, it would be in a position to set its house in order financially, retiring the arrears certificates and paving the way for common dividend payments.

While holding company securities in general have had a very substantial comeback since the gloomy days of April 1942, the present tempo of integration proceedings for certain systems seems to present further appreciation possibilities over the longer-term for discerning students of these special situations. From a short-term market angle, however, almost as much importance seems to attach to the "timing" of announcements regarding the various plans, as to the significance of the plans themselves. Recent markets have undoubtedly reflected better sentiment toward utility holding company preferreds than we have witnessed for some time, with such issues as Electric Power & Light preferred, American Power & Light preferred and United Corp. preferred making sharp advances into new high ground.

Burlington Mills *vs* United Merchants & Mftrs

A Comparative Study

BY GEORGE W. MATHIS

COMPANIES in every branch of the rayon business have had large growth in comparatively recent years, and sales expansion during the war years since 1939 has been especially sharp. The rayon yarn makers—such as American Viscose, Celanese and Industrial Rayon—are best known to the investing public. Few investors are aware that there are fabric makers—including Burlington Mills and United Merchants & Manufacturers—which rank with the top "rayon companies" in volume of business and earning power.

These two less well known enterprises have been chosen for this study of similarities and differences because on their performance record and apparent potentials they rate wider acquaintance among speculative-investors. We shall have to decide, further along, whether something more than mere acquaintance is warranted, when apparent values and prospects are weighed against prevailing prices of the shares.

When they were initially launched, the two companies had quite different objectives. Circumstances which neither could foresee have made operations in recent years more similar, though significant differences remain.

Burlington Mills is the outgrowth of a very small company of the same name which was incorporated in 1923 to make cotton fabrics. It still makes cotton goods but this branch long since took a back seat. Burlington began to work with rayons when the new "artificial silk" was still far inferior to the natural fibres. Through internal growth, acquisitions and mergers it has become the country's largest maker of textile fabrics derived from rayon or other synthetic fibres.

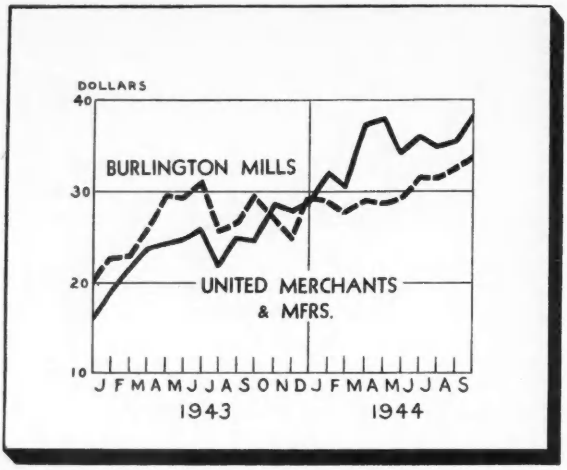
United Merchants & Manufacturers seems an unusual and ambitious name for a textile concern, but it was appropriate to the original objectives. It's a holding company which was launched in the optimistic days of late 1928 with the idea of acquiring a vertical "empire of textiles" which would include mills, finishing plants, converters, factoring facilities and retail merchandising outlets. The dream did not fully materialize, especially on the retailing end; and before it could be pursued very far the great 1929-1933 depression came along. Following a whopping big loss in 1932, $2,246,595 to be exact, the holding company was recapitalized in 1933. Since then the enterprise has made excellent progress in the manufacturing, converting, factoring and distributing of rayon and cotton fabrics.

The shift of cotton textile concerns to rayon or to combined operations in rayons and cottons has been very general, due to superior growth factors in rayon, a far less bothersome price situation than in politically-controlled raw cotton and the easy convertibility of cotton textile plants to manufacture of rayon fabrics.

Just before the war rayon fabrics accounted for about two-thirds of United's volume of sales, cotton fabrics for the rest. Largely due to abnormal military demands for cotton goods, present sales are reported to be around one-half in cotton, one-half in rayon. Ex-war, the company's volume in cotton goods probably will not only shrink to its former proportion, but in time is likely to be even of smaller proportions, with correspondingly increased emphasis on rayons.

Though the proportions have not been revealed, it is understood that Burlington's pre-war business in cotton fabrics made up a considerably smaller percentage of its total volume than in the case of United. However, in addition to capacity operations in rayon, it is presently meeting large military demands for fabrics of cotton, also nylon. Incidentally, the company makes women's and men's hosiery, and was one of the first to manufacture nylon hosiery.

Before the war Burlington was much the superior of the two companies in terms of growth of sales, growth of earnings, and consistency of earnings and dividends.



It had profits even in the deepest depression years. During the war period, however, sales expansion of the two companies has been nearly equal and, as compared with 1939 figures, there has been by far the sharpest betterment in United's position with respect to net income per share, profit margin and net working capital.

For most recent fiscal years for which reports are available, United had sales of $83,210,000 against $35,359,000 in pre-war year 1939. Burlington's sales totalled $97,641,000, compared with $39,270,000 in 1939. However, subject to renegotiation of war contracts, United had net income of $4,256,000, compared with $3,778,000 for Burlington. In other words, on sales roughly 14 per cent less than those of Burlington, the smaller company showed net income about 16 pert cent greater. In the pre-war year 1939, on sales about 10 per cent smaller than Burlington's, United's net of $1,466,000 was roughly 28 per cent less than $2,050,000 figure for Burlington.

United's advantage in war-time earning power is partly accounted for by a more favorable tax position. Its estimated excess profits tax credit (with most subsidiaries on an invested capital base) is $3.84 per common share, against estimated $2.32 for Burlington Mills. For the latest fiscal years, Federal taxes took approximately 63 per cent of Burlington's pre-tax earnings, against 61 per cent for United. However, depreciation and amortization charge of Burlington was considerably larger than that of United: $1,619,000 against $723,208. On the other hand, Burlington set aside no contingency reserve as such deductions had been adequately heavy in the two prior years, while United charged off $750,000 for contingencies. Balancing these items, total deductions for depreciation, amortization and contingencies by United amounted to only $146,000 less than depreciation and amortization deduction of Burlington; and in relation both to sales and plant investment they appear even more conservative than Burlington's total "write-off". Hence these differences can not account for more than a minor part of United's superior profit showing at present.

Capitalizations of both companies are relatively simple. Burlington Mills has $4,920,000 in serial-note debt, 61,852 shares of 5 per cent cumulative preferred stock and 869,888 shares of $1 par value common stock. Capitalization of United is 60,000 shares of 5 per cent cumulative preferred and 575,174 shares of $1 par value common, there being no debt. Despite moderately larger capital charges ahead of the common, there is greater earnings leverage in United common shares since the number of such shares outstanding is over a third less than those of Burlington. Illustrating this point, while Burlington has the largest sales volume of the two, its sales on a per common share basis for the latest reported year amounted only to about $112, compared with over $144 for United.

On common shares now outstanding, Burlington Mills for the 1943 fiscal year netted $3.97 per share, comparing with approximately $2.35 a share in 1939, the latter figure adjusted to present total of 869,888 common shares, since only 624,757 shares were outstanding in 1939 when net thereon was $3.28 a share.

In marked contrast United earned $7.40 per share for the fiscal year, with 575,174 shares outstanding, compared with only $2.44 in 1939, when a slightly larger total of shares was outstanding (599,556). This was a gain of over 200 per cent from the pre-war year, comparing with a gain of not quite 70 per cent for Burlington Mills.

Burlington' s net working capital amounts to $25,438,000 according to the latest available balance sheet, comparing with $22,093,000 for United. For the pre-war year 1939 this figure was $7,653,000 for the larger company, $5,771,000 for United. The war-time increase has been $17,785,000 for Burlington, $16,322,000 for United. Net working capital per share is $16.39 for Burlington, $27.98 for the smaller company. In the pre-war year it was $7.37 a share for Burlington, $5 a share for the other company. Thus, Burlington's net working capital per share has increased less than 2½ times during the war period, while that of United has been multiplied over five-fold.

Market Action

As compared with the bear market lows, both of these stocks have had a very great advance. United sold as low as 11¾ in early 1942 (as low as 6 in 1938), compared with 1944 high of 45 and recent price around 42. Burlington was as low as 14⅞ in 1942 (6¾ in 1938), against 1944 high to date of 40¾ and recent price of 40. However, in retrospect the lows look ridiculous on a statistical basis. In 1942, when the low was not quite 15, Burlington earned over $4 a share and paid $1.65 dividend. In 1938, when it got down as low as 6¾, it earned $2.27 a share and paid a $1 dividend.

There could perhaps be justification for a low of 6 for United in 1938 for it had a deficit in that depression year and paid no dividend, but in 1942 when the low was 11¾ the company actually earned $5.83 a share and paid dividend of 97¾ cents; and, moreover, in each of the preceding three years net per share had ranged from $2.22 to $3.97.

So the stocks, neither of them being a radical speculation, were entitled to a large rise on the realities of earning power and financial condition. The question now is whether they have gone to an unsupportable extreme in the opposite direction. That may be open at least to some debate—for future changes must be allowed for—but on the *prevailing* statistics it can only be said that neither looks very high.

Against present price of about 42 for United there is net working capital of $27.98 a share and book value of $45.70 per share. This price is 5.6 times 1943 earnings per share, 9.5 times average earnings of the past five years. However, it must be noted that it is around 18 times earnings of such pre-war years as 1937 or 1939.

Against present price of 40 for Burlington Mills, there is net working capital of $16.39 a share and book value

of $31.71 a share. The price is 9.8 times latest fiscal year net per share, about 12 times average reported net per share for ten years 1934-1943. But note that with adjustment for present greater share capitalization, it is about 17 times highest pre-war net per share of 1939.

In short, these two stocks look "reasonably" priced in ratio to war-time earning power but far from cheap in ratio to best pre-war earning power, for in over-all investment status the highest rating that can be accorded them is "fair". This brings up a question as to whether post-war earnings are likely to be comparable to present earnings, or comparable to pre-war earnings. Obviously, it can not be answered with any certainty, since various imponderables are involved. However, though exact levels are anybody's guess, it appears likely that post-war business activity, national income and consumer spending will average somewhat above the best pre-war years and materially above the pre-war average. Next, there is reason to believe that consumer demand for rayons is still subject to long-term growth. On these two probabilities, it seems reasonable to anticipate that pre-tax earnings after the war may be substantially higher than best pre-war records. If this is so, the remaining part of the question about future earning power boils down largely to the matter of Federal tax rates.

The Tax Picture

It would be pointless to indulge in any guesses as to when and by how much Federal taxes will be lowered. However, if there is one certainty in the tax picture, it is that the excess profits tax will be repealed after defeat of both Germany and Japan. All authorities at Washington seem in agreement on this score. Looking forward to the time when tax calculations will again be relatively simple to make, some purely hypothetical figures may be advanced. If Burlington had sales of $68,000,000 which is half-way between 1939 figure and war-time peak, and if it had an operating profit margin of 10 per cent, which also is half-way between 1943 and 1939 results, the pre-tax profit would be somewhere around $6,800,000. If the effective Federal tax were 50 per cent, the net profit would approximate $3,400,000. If the tax were 40 per cent, profit would approximate $4,080,000. The former figure is about 43 cents a share less than was earned in the 1943 fiscal year, the latter figure about 34 cents a share more.

Actual results, of course, may be far different from these hypothetical figures. Sales for a goodly time may be less than $68,000,000 a year, for that figure is 70 per cent higher than 1939 sales and over twice the average sales of 1936-1939. Operating profit margin may be higher or lower than 10 per cent. It was 13.2 per cent for the latest year, compared with 16.6 per cent for United Merchants & Manufacturers. In 1939 it was 7 per cent for Burlington, 6.7 per cent for the smaller company. In calculations of the above kind, the reader can write his own ticket as to how much either or both of these companies might earn in future under various assumed levels of sales, profit margins and taxes. But all it can suggest is that they *probably* will have earnings better than the best pre-war results and that they *might* be close to or even a bit above best war-time figures, if conditions should be highly favorable.

As noted earlier in this analysis, Burlington Mills common is now priced at approximately 9.8 times prevailing earning power per share, the comparable ratio for United being 5.6. It need hardly be said that that is a very wide divergence in market appraisal of worth and potentials. Specifically, it values—or prices—each dollar of Burlington's present earning power 75 per cent more highly than a dollar of United earning power. There is, of course, room for debate as to whether the differential is too great but at any rate it is not just happenstance. The concensus of investment opinion that the differential reflects is that there is much more "war" in United's present earnings than in Burlington's and that the risk of post-war shrinkage in them is relatively greater than in the case of Burlington. As generalities, that is very likely true.

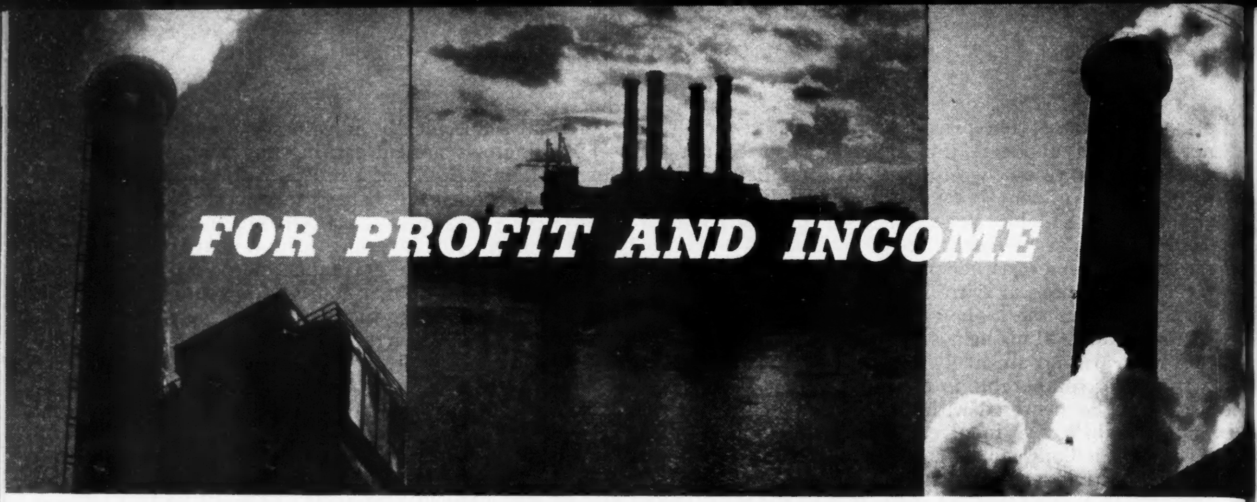
However, one must go further than the difference in *current* price-earnings ratios. While the market appraisal assumes that a larger proportion of United's present earning power is temporary, it assumes on the other hand that in regular earning power—as to which the relative positions are perhaps roughly indicated by best pre-war earnings—there is not a great deal of difference in merit between the two stocks. As pointed out earlier, present price of Burlington shares is about 17 times the per share earnings of 1939, price of United about 18 times 1939 per share net. During 1939, on 1939 earnings, the highest price-earnings ratio for Burlington was 8.6, the highest for United was 5.8. Not until 1943 did United common closely approach Burlington in market price, not until this year did it pass Burlington.

Despite the wide divergence, therefore, in current price-earnings ratios, it is ap- (*Please turn to page* 327)

Pertinent Statistical Data

	Burlington Mills	United Merch. & Mfrs.
Capitalization		
Debt	†$4,920	None
Preferred Shares (No. of)	61,852	60,000
Common Shares (No. of)	869,888	575,174
Sales		
Latest Year	†97,641	†83,210
1939	†39,270	†35,359
Per Share, latest year	$112.23	$144.71
Income Figures		
Per Share net, latest year	$3.97	$7.40
Per Share net 1939	3.28	2.44
Oper. Margin, latest year	13.2%	16.6%
Oper. Margin, 1939	7.0%	6.7%
Net Profit Margin, latest year	3.8%	5.1%
Net Profit Margin, 1939	5.2%	4.1%
Per Share Dividends		
Indicated Current Rate	2.10	2.00*
Paid 1939	1.25	None
Current Yield	5.3%	4.7%
Net Work Capital		
Latest Year	†25,438	†22,093
Latest Year Per Share	$16.39	$27.98
1939	† 7,653	† 5,771
1939 Per Share	$7.37	$5.00
Book Value Per Share	31.71	45.70
Current Ratios		
Latest Year	3.7/1	2.1/1
1939	2.4/1	1.5/1
Ratio Inventory to Current Assets		
Latest Year	45.8%	31.7%
1939	61.9%	30.2%
Ratio Cash to Current Liabilities		
Latest Year	86.3%	53.6%
1939	19.7%	16.2%
Plant & Equipment, Latest Year	†11,686	† 8,727
Plant & Equipment, 1939	† 8,754	† 7,320
Reserves, Latest Year	† 1,400	† 1,750
Reserves, 1939	† 126	† 215
Surplus, Latest Year	†25,314	†18,444
Surplus, 1939	†12,398	† 7,471
Recent Price—Earnings Ratio	9.8/1	5.6/1

*Plus 10% stock. † in millions of $.



FOR PROFIT AND INCOME

Clear Sailing?

Now that the July top of the Dow industrial average has been penetrated, Dow Theory followers, content that this performance has "reaffirmed" the bullmarket trend, are convinced that henceforth it will be "clear sailing" for the market. However, this column is not so sure about it. Such deductions have proved erroneous before, and may do so again. As pointed out on previous occasions, such "confirmations" do not by any means guarantee a broad and extended rise, nor do they preclude the possibility of reactions. And by reactions we mean more than just the ordinary correctional phase such as the market is now going through. Spurts into new high ground are usually followed by periods of digestion, if not to say congestion, and moderate recessions from the highs are the rule.

It must be recorded, however, that the market so far has been acting in fairly encouraging fashion. Apparently there is no great urge to sell or take profits though profit taking has been marked especially in the rails after their vigorous advance of the past weeks. The corrective move thus far has been modest, in terms of the average, with activity contracting on the decline. Just how much of the selling is of the tax selling variety is impossible to ascertain or even guess though it would doubtless be interesting to know.

What with the plethora of investible funds and the fillip the market lately received from a wavelet of stock split-ups, it would not surprise if present corrective action were to remain relatively limited in scope. Split-ups are widely regarded as signs of intrinsic market strength, certainly not a characteristic of a liquidating market. The eagerness with which buyers have recently taken to a stock on news of an impending split hardly bespeaks an over-bearish frame of mind. While market sentiment continues mixed, all this may provide a degree of underlying firmness in the period of churning which may well lie ahead in the immediate future.

Selectivity

A glance at price moves during the current correctional phase of the market emphasizes once more its selective character. While downward adjustment of prices occured in many directions, advances are registered in others and a goodly number of new highs appear daily. People, in short, are not buying the market, they are buying stocks and have been for quite some time.

STOCKS RECENTLY STRONGER THAN MARKET AVERAGE

All. Chem. & Dye	Hazel-Atlas Glass
Am. Locomotive	Illinois Central
Am. Steel Fdrs.	Lambert
Am. Tel. & Tel.	May Dept. Stores
Bliss & Laughlin	Minneapolis-Honeywell
Butler Bros.	Nat. Dairy Prods.
Eastman Kodak	Pac. Gas & Electric
Electric Boat	Phelps Dodge
Fairbanks Morse	Pressed Steel Car
Federal Mogul	Superheater
Fruehauf Trailer	Timken Detroit Axle
General Mills	
Glidden Co.	

This is made abundantly clear if we consider that while the industrial average has bettered its July high only slightly (rising from 150.50 to 151.62 at the peak of the upward move), many individual stocks have done far better. In fact the number of stocks with above average market performance is very considerable. Such equities as Burlington Mills, Pfizer, Ex-Cell-O, Crosley, Lehigh Coal and Navigation, Worthington Pump and Emerson Electric, to mention just a few, bettered their 1944 highs since mid-July by about 20%. Dresser Manufacturing by 38%, Texas Pacific Land Trust by 95% and Grumman Aircraft by fully 95%.

Tax Selling

As far as market effect is concerned, the much vaunted tax selling pressure has been largely conspicuous by its absence, at least up to the time of this writing, again confounding those prone to attach much faith to seasonal patterns. Apparently there are not so many losses to take at this time, just as there is no great urge to take profits. People, in other words, rather hold stocks than cash.

Apropos tax selling, readers are reminded that for tax purposes, sales to establish losses must be completed by December 29 while sales to realize profits must be made not later than December 27.

Correction

In an article in our November 25 issue, on page 207, we discussed the contemplated stock offering of Aeronca Aircraft and inadvertently endowed the proposed preferred stock with a $10 dividend rate. Actually, the proposed rate is $0.55 for the $1 par value cumulative convertible preferred stock. Company's 1943 earnings, stated as $0.79 per share, were after provision of $100,000 for contingency reserve. Prior to this deduction, net earnings were $204,546 or $1.55 per share.

Hope Springs Eternal

Recent market strength of International Paper common apparently was based on dividend hopes. While a director of the company promptly threw cold water on such expectations, optimists seemingly felt that what with increasing pressure for a disbursement, "you cannot tell what may happen."

Keeping Abreast of Industrial and Company Changes

Stock Splits

Speculative appetites were whetted over the past weeks by an increasing number of stock splits, producing eager demand for the equities involved. Loew's common sold into new high ground following announcement of a three-for-one split and placement of the new common on a $1.50 annual dividend basis. In preparation for this adjustment, directors asked stockholders to approve an increase in the authorized common stock from four million shares to six million. Also recommended was cancellation of present authorization in the company's charter for 150,000 shares of preferred stock, none of which is now outstanding. The board declared a regular dividend of 50c and an extra payment of $1.50 on the present common stock; these payments will bring 1944 disbursements to $4 a share, the same as in 1943. Loew's earnings are running at a high level with a net of $6.24 a share reported for the forty weeks ended June 8 compared with $5.67 in the like period of the preceding year. Earnings for the entire fiscal year are estimated at $8.50 per share. On basis of three-for-one split, this would indicate earnings on the new shares from $2.70 to $2.80 a share, leaving ample coverage of the dividend rate contemplated for the new stock.

Other stocks aided marketwise by forthcoming splits were American Airlines, Pan American Airlines, Pepsi-Cola and Raytheon. A four-for-one split is rumored for Westinghouse. There are of course varying motives behind these moves; these will be dealt with in greater detail in the next issue of the Magazine. In some cases, the need for new capital is obvious. Elsewhere, as in the past, when stock prices have risen because demand has outrun the supply, managements are resorting to split-ups to keep prices of their shares within what they regard as a desirable range. Such actions also reflect growing interest in realization of long-term capital gains on the part of management and large stockholders at a time when personal incomes are otherwise severely limited by high taxes. The latter of course holds appeal for smaller stockholders as well.

Still Pending

Segregation of its sleeping car division by Pullman Inc. still appears some way off in view of disagreement by the railroad industry as to the method for acquiring the business. A special committee has been formed by the Association of American Railroads in each region to study the problem and this may help speed up a decision. In the meantime, Pullman's manufacturing unit is understood to have sufficient orders on hand to keep production at a high level well into 1945.

Oil Doings

Recent announcement by the Standard Oil Company of California that it has signed concessions on 1,750,000 acres of oil lands in Venezuela points to intensified American oil production in foreign fields in the postwar era. The trend toward investment in foreign oil properties has been pronounced, with attention being paid to Venezuela in particular. It reflects a growing conviction, both in and out of the industry, that the United States hereafter must rely more and more on foreign oil to supply increasing demand.

Oil companies plan heavy expenditures for postwar development, both at home and abroad. A recent survey by the Petroleum Administration for War, covering all types of petroleum plants in this country and abroad, revealed that the industry plans total outlays of some $352 millions on refinery equipment as rapidly as materials for construction become available. Fully one-half of that sum will be expended outside of the United States. Ever since the start of the war, foreign investments by American operators have been greatly curtailed. In the last six years, thirty principal companies spent only $406 million or less than 10% of a total expenditure for that period of $4,105 million. In 1943, foreign expenditures dropped to $51 million, or 5.5% of the year's total. Prospects of vigorous postwar expansion should mean excellent business for years to come for makers of refinery equipment, oil well machinery, etc., since domestic exploration, too, is expected to revive sharply with a return to normal conditions.

Among those in the forefront of the Venezuelan oil picture is Creole petroleum whose plans for construction of a $40 million oil refinery in

Increases Shown In Recent Earnings Reports

		Latest Period	Year Ago
Western Union Tel.	10 mos. Oct. 31	4.85	4.58
Driver-Harris Co.	Year Dec. 31	4.65	4.43
Cuban Atlantic Sugar	Year Sept. 30	5.10	1.23
Engineers Pub. Serv. & Subs.	12 mos. Oct. 31	2.32	1.63
Nat'l Pressure Cooker Co.	Year Sept. 30	3.35	.91
Penn.-Central Airlines	10 mos. Oct. 31	.85	.60
Raytheon Mfg.	Year May 31	10.72	2.80
Dominion Glass Co., Ltd.	Year Sept. 30	7.43	5.90
General Finance	9 mos. Aug. 31	1.00	.69
Adressograph-Multigr.	12 mos. Oct. 31	1.59	1.47
Brillo Mfg.	9 mos. Sept. 30	1.41	.41
Joy Mfg.	Year Sept. 30	2.10	1.95
Parker Rust Proof	Year Sept. 30	1.87	1.81
South Amer. Gold & Plat.	9 mos. Sept. 30	.11	.09
U. S. Plywood	6 mos. Oct. 31	1.59	1.25
West Indies Sugar	Year Sept. 30	4.33	2.60
A. P. W. Paper Co.	16 wks. Oct. 21	.18	.07
Central Violeta Sugar	Year Sept. 30	6.03	1.55
Diamond Match	9 mos. Sept. 30	1.32	1.25
Jarvis (W. B.) Co.	Sept. 30 quar.	.28	.26
Twentieth Cent. Fox & Subs.	39 wks. Sept. 23	4.67	4.53

Venezuela are nearing completion. The refinery will be near the central part of the country to be able to compete in world markets. Creole's new pipe line to Eastern Venezuela is nearly completed.

Financial Strength

The Foster Wheeler Corporation has paid off all its bank loans during the current year. These came to $4.8 million a year ago under a $15 million V credit arrangement with a group of banks. Now it is understood that this agreement has been reduced to a $9 million V loan to cut down interest charges on unused balances. Company's financial position currently is the strongest in its history.

The company should benefit materially from the potential world demand for oil refinery equipment which normally contributes the largest percentage to Foster Wheeler's dollar volume. Company at present has under negotiation substantial business for Russia, mostly for war purposes and falling in the lend-lease category. But this and other foreign markets are being developed for postwar business. Directors recently voted a year-end extra dividend of 50 cents in addition to placing the common on a regular quarterly basis of 25 cents.

Still Expanding

McKesson & Robbins announced acquisition of another wholesale drug company, the W. J. Gilmore Co. of Pittsburgh, thus affording the company a new outlet in the Pittsburgh area. Distribution facilities are a vital part of the drug industry and McKesson will now have 66 firms merged into its distributing organization.

Another company noted for its strong expansion and diversification trend is Dresser Industries which through acquisition of three new companies plans further widening of its scope of activities. Companies to be acquired are the Day & Night Manufacturing Co. of Monrovia, Cal., maker of a line of gas fired hot water heaters; the Payne Furnace and Supply Co. of Beverly Hills, Cal., producer of steel furnaces and floor furnaces for the consumer durable goods field; and Kobe Inc., of Huntington Park, Cal., a producer of hydraulic deep-well oil pump systems. Acquisition of these companies will be accomplished by an exchange of stock; Dresser stockholders recently authorized an increase in capital stock from 453,000 to 600,000 shares, a portion of which is unissued and will be used to consummate the purchase agreements.

Melville Shoe Corp.

Holders of the preferred stock are reminded that the present basis of conversion—one share of preferred for three shares of common—expires at the end of this year. On January 1, the new rate of 2½ shares for one goes into effect, to continue until January 1, 1950. Current market price of the common is around $36 a share, against the year's high of 38¼ and a low of 31⅛. As against the $5 a share in dividends it is now receiving annually, the preferred is convertible at the present rate into common shares paying a total of $6; however, the $2 annual dividend on the common has been barely covered this year and last. Present conditions, of course, are no gauge of earning power in normal times; in 1940 net per common share was $2.96 and $2.64 was earned in 1941. Since then, wartime regulations and rationing have resulted in reduced earnings which last year were down to $2.15. Net for the first half of this year was $1.01 per share. The common has semi-investment appeal since the yield (currently over 5½%) would be attractive even if the dividend were reduced moderately though no such step is immediately expected. Postwar prospects point to satisfactory recovery of earning power. The preferred is presently selling around 113, thus at a wide premium over the call price of 105.

Airline Financing

At least 50% of the estimated $500 million of financing that will be required by domestic airlines in the first stage of their contemplated postwar expansion could be provided in the form of medium term serial loans by banks and insurance companies. Of the balance, not more than 30% need be in form of equity capital since the remaining 10% could be provided from earnings during the expected postwar growth period of this up and coming industry. This is the gist of a study made by a number of financial institutions including three leading New York banks.

Whether the industry's projected expansion will be financed along these suggestions remains to be seen, of course. It is patent that present equity capital of domestic airlines is inadequate and some estimate that at least $250 million may have to be raised by sale of additional common and preferred stock. Thinking in industry circles appears to tend in this direction. Pan American Airways recently announced a program which may provide $60 to $80 million of new equity capital in the next three years. American Airlines stockholders authorized additional stock which may provide $60 to $70 million in new equity funds via a two-for-one split of the common and issuance of 200,000 new preferred shares. Other domestic airlines are said to consider meeting their requirements along similar lines.

No U.S. Steel Financing

Holders of U.S. Steel securities will doubtless be interested in word that the corporation plans no public financing after the war. So says E. M. Voorhees, chairman of the company's finance committee. Postwar monetary needs are well provided for; a total of $135 million have been set aside for reconversion up to the end of 1943.

Declines Shown In Recent Earnings Reports

		Latest Period	Year Ago
Northwest Airlines	Sept. 30 quar.	.72	1.33
Outboard Marine & Mfg.	Year Sept. 30	3.66	3.94
Canada Dry Ginger Ale	Year Sept. 30	2.30	2.56
Nash., Chatt. & St. Louis Rwy.	10 mos. Oct. 31	7.52	11.30
First National Stores	13 wks. Sept. 30	.67	.69
City Stores	Oct. 31 quar.	.33	.39
Greyhound Corp. Sys.	9 mos. Sept. 30	2.90	3.02
Locke Steel Chain Co.	Year June 30	1.53	1.68
Chicago Yellow Cab	9 mos. Sept. 30	1.07	1.43
Hayes Industries	Oct. 31 quar.	.69	.71
Chicago Pneumatic Tool	9 mos. Sept. 30	2.95	4.04
Nat'l Linen Service	Year Aug. 31	1.31	1.50
Southern Pac. Trans. Sys.	10 mos. Oct. 31	9.64	17.10
Le Tourneau, Inc. (R. G.)	10 mos. Oct. 31	3.97	4.02
McGraw Electric	12 mos. Sept. 30	1.83	2.06
Nash Kelvinator	Year Sept. 30	.71	.96
Wentworth Mfg.	Year Oct. 31	.36	.67
Wesson Oil & Snowdrift	Year Aug. 31	2.27	3.33
Amer. Pwr. & Lt. & Subs.	12 mos. Sept. 30	7.73	10.27
Royal Typewriter	Oct. 31 quar.	.14	1.39
Thermoid Co.	9 mos. Sept. 30	.86	.98
Vick Chemical	Sept. 30 quar.	1.83	1.85
Virginian Rwy.	10 mos. Oct. 31	2.23	2.42

Answers to Inquiries

The Personal Service Department of THE MAGAZINE OF WALL STREET *will* answer by mail or telegram, a reasonable number of inquiries on any listed securities in which you may be interested or on the standing and reliability of your broker. This service in conjunction with your subscription should represent thousands of dollars in value to you. It is subject only to the following conditions:

1. Give all necessary facts, but be brief.
2. Confine your requests to *three listed securities;* one request per month.
3. No inquiry will be answered which does not enclose *stamped, self addressed envelope,* or is mailed in our postpaid reply envelope.
4. If not now a paid subscriber use coupon elsewhere in this issue and send check at same time your transmit your inquiry.

Special rates upon request for those requiring additional service.

What Action Now?

"Recently I made inquiry of your personal service department concerning the advisability of attempting to invest some of my idle cash before the end of the year as I do not like to maintain a large amount of cash at the sacrifice of immediate income. According to various financial periodicals it seems to be the concensus of opinion that there will probably not be much tax selling this year. I realize that we still have the overhanging threat of a serious setback from one cause or another and all counsellors are advising a cash reserve of 30 to 40%. However my status is still 100% cash with the exception of the Liquid Carbonic stock and I wonder if I should not attempt to make a few solid investments in some good dividend paying securities on any minor recessions. Following is a list of common stocks which I have been watching and charting and also the range in which I think purchases would be advisable. I will appreciate your comments on any of this list or any others you might suggest.

Atchison Topeka & Santa Fe. Com.	66-70
American Locomotive Com.	18-20
Atlas Plywood	12
Coca Cola A	62-63
Container Corp. Com.	23-25
General American Transportation	49-50
Glenn L. Martin Com.	20-21
New York Central Com.	17-18
Oppenheim Collins Com.	9-10
Republic Steel Com.	17-18
Standard Gas & Electric 7% Pfd.	75-77

Will you be good enough to let me have your comments at an early date?'

—M. P. A., Crete, Ill.

It will not be possible to cover your inquiry as fully as we should like because we must try to answer all our subscribers as promptly as we can and to give adequate consideration to all of the items you have listed would naturally take a great deal of time and research.

First we shall briefly consider the point of tax selling. Here we find a variation of opinion that is almost as great as that with respect to the near term course of market prices. How one can say there will be no tax selling with 150 to 250 stocks close to their 1944 highs, some making new highs frequently, and all well above the lowest price at which they sold in 1943 or 1944 while there are at least 100 stocks that are many points below their 1944 highs so that one can take a long term profit on the one hand and a short term loss on the other. There may be many instances where the holder will feel that saving in taxes may not justify the risk of losing the position but you might also consider that a stable market for the duration of the war loan is desirable and might contribute to the success of the present bond selling campaign. If adjustments are withheld until the end of the 6th War Loan for patriotic reason we might yet witness a short period of intensive selling with price fluctuations similar to those that occurred in November, 1943.

As to the securities you list we must adhere to our policy to comment on only three securities at one time. First we will consider Coca-Cola A which is to all intents and purposes a preferred stock. It certainly involves risk of loss of 25% of capital if called for retirement unexpectedly at the retirement price of $52.50 and the yield of less than 5% hardly compensates for the risk involved. We can say "it won't happen here" but it did happen in Johns Manville Pfd. which was called at 120 while selling around 133 and possibly one or two others whose names do not come to mind at the moment.

In the case of Standard Gas & Electric, the market price would seem to fully reflect its value in terms of the recapitalization, therefore we see little hope for further appreciation. Since no dividends are being paid it does not qualify for your objective of income.

Atchison Common was covered in considerable detail in a recent issue of the Magazine. Its dividend is attractive but its price is rather high and in view of the fact that action with respect to an issue discussed in the Magazine should be based on the market position as suggested by Mr. A. T. Miller, it is recommended that you maintain your cash reserve over the near term.

Educational Fund

"Again I am writing you for a recommendation for an investment for our grandson's fund, toward his education. You may have forgotten an investment you suggested more than a year ago, which turned out very well indeed; it was in Atchison Topeka & Sante Fe Pfd, purchased at 83½ sold at 101. In asking you for this, I want you to know I am not holding you responsible for any suggestion; if any one were 100 percent perfect along this line, he might possess the assets of the world. I mention this that you may have no qualms about suggesting a favorable investment in your judgment. My husband has been a subscriber to the Forecast for a few years; it is sent to his business address. We have a high opinion of its ability and trustworthiness. But for this particular fund I am asking for your personal advice."

—H. S., Spring Grove, Penna.

We hope in this instance that our

suggestions will prove as favorable as they have in the past.

Since you do not give the age of your grandson, we must perforce assume that he is quite young. You cannot expect any reasonably safe commitment made under today's conditions to equal the results of the Atchison transaction. It seems therefore that a bond would be most suitable in this instance and we would suggest Laclede Gas Light 5½s of 1960 around 99¾ to 100. While the original contract calls for the retirement of these bonds at a premium of 3% if retired before 1950, the plan of recapitalization now under consideration contemplates their retirement at par. We have therefore set par as the maximum price that ought to be paid, so any premium that might be paid in the event approval for their retirement at par cannot be accomplished may be considered as extra reward.

Inasmuch as it is expected that the capital readjustment will be completed within two years, this recommendation will operate as a short term hedge against a change in the general investment price structure while yielding a return of 5½% over the near term. Possibly when it becomes necessary to consider reinvestment of the funds, if retirement occurs prior to maturity as now seems probable, there will be opportunities for reinvestment in an issue where both income and appreciation can be expected with moderate risk.

Sell Philco

"What should I do with Philco which costs me about 18. It shows me a nice profit and since I read in the newspapers recently that a public offering at 33½ had to be canceled, I am wondering if I ought to accept my profit. Do you think it might decline enough within six months or a year so that I could buy it back around 20 or 25."

—C. F. E., Manheim, Pa.

Philco is reported to be planning to enter production for civilian consumption when the conflict ceases in the European theatre while continuing to supply the armed forces with necessary radar and electronic equipment for the war against Japan. We have seen some estimates that the company expects to do a volume in the first two years after the war that will exceed by 50% its pre-war volume in the refrigeration field. As you may recall this issue was covered quite fully in the magazine only a short time back.

There are, however, a number of factors that suggest extreme caution in issues where price expansion has been considerable. So many firms are planning to enter the fields of radio plastics, electronics, and household equipment that we may come up with a situation where competition will be so keen that profits will be negligible.

It must also be recognized that nearly all estimates of post-war production and buying power are founded on a highly optimistic basis. Should public psychology change or competition develop a stringency one might find our situation materially different from general anticipation. On the whole we can see no reason why you should not take your profit, but we doubt you will be able to replace your investment as low as you expect.

Buy Wesson Oil?

"What is the outlook for Wesson Oil & Snowdrift common? I own 100 shares which cost me around 50 some years back and I had in mind to buy 100 to 200 shares more if this issue reacted to about 20 as that would give me an average cost of about 30 and a return of 5% on the entire investment for the contemplated purchase would return 7½% while I am only getting 3% in my original purchase."

—W. T. M., Chickasha, Okla.

The near term outlook for Wesson Oil and Snowdrift is satisfactory. A claim now pending against the Government for $800,000 on account of excess cost in replacing inventories liquidated at government request would return to the company the equivalent of $1.50 per share. The claim is based on the premise that in order to alleviate a shortage of vegetable oils the company liquidated a large inventory of low cost vegetable oils and in so doing incurred large excess profits taxes. It now finds it necessary to replace a substantial part of this inventory at prevailing prices and should therefore feels it should receive an adjustment of its excess profits taxes to compensate for these increased costs.

Its best known product "Snowdrift" shortening continues to hold well in sales volume but profits are understood to be below normal because it is now packaged in glass rather than the tin containers formerly used and the glass containers are presumed to be somewhat more expensive to handle. In addition to a large volume of crushed cottonseed, this company also processes peanuts and soy beans and as these items gain in public favor, further expansion in this field is indicated. Another important output is the production of fertilizer which should be of importance at least during high prices for farm products.

Under the circumstances your contemplated purchase should prove profitable if the shares decline to the level you have in mind.

Take Tax Loss

"I own a substantial block of shares in Magma Copper Co. accumulated many years ago, cost being in the neighborhood of 40.00 per share as some of the shares were purchased around 80. Would I be wise in taking a tax loss on say 200 shares as some of my stocks show a fair long term profit and the loss I could take would be about $1200 more than the profits I have in hand?"

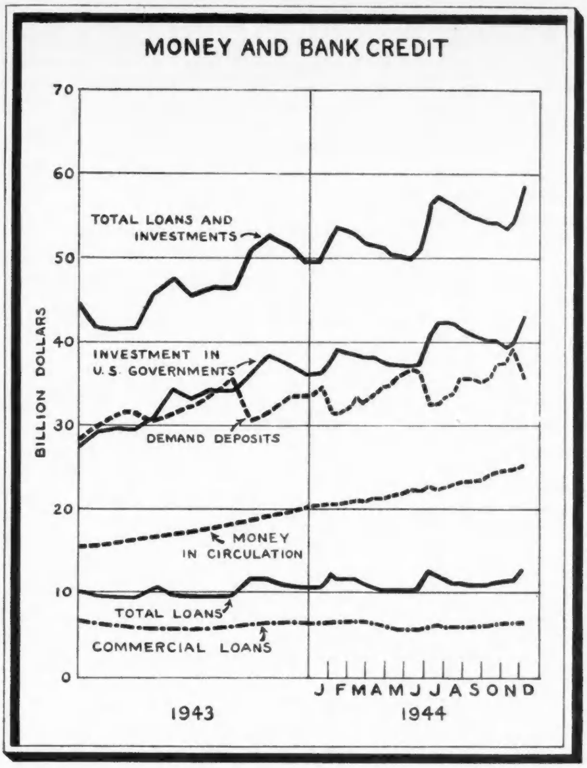
—M. P. A., Dumont, N. J.

Magma Copper has had a recent sharp advance predicated on the belief that a new discovery on property which the company has under option may provide a large backlog of copper ore. It should be borne in mind, however, that the area in which the discovery was made is regarded as a low grade area and until the proposed drilling campaign proves that the discovery can be commercially profitable, one cannot assume that the company will gain any substantial benefits from this property.

On the other hand we have had the widely heralded, though somewhat disputed statements, that excess supply of mined copper plus recoverable scrap may be as much as five to six years' normal supply. That there is some foundation for belief a huge surplus exists is best evidenced by attempts to have a "floor" put under copper prices on cessation of hostilities and to have the government take over the surplus for gradual liquidation.

In your case it would seem that you could very properly take the loss as you contemplate for you can offset the amount you have in mind against profits while if you have income from dividends or salary you can utilize another $1000 of the loss to further minimize your taxes under the provision that $1000 in losses may be applied against income. The small balance can be carried ahead to 1945 and used where it will be most advantageous unless the present tax laws are changed. And if the rally subsides you may find that you can repurchase the shares you sell at a profit if you wish to do so. You should however make certain that you can properly identify the certificates you are planning to sell as to date of purchase and cost price in case you have shares at both high and low prices.

(*Continued on page* 328)



CONCLUSIONS

MONEY AND CREDIT — Profits of 265 leading industrial companies up 3% in first nine months. Corporate net working capital to reach $47 billion by year-end, plus refundable taxes of nearly $2 billion.

TRADE—Christmas shopping starts earlier this year, and promises to last longer, than for any previous season. Some depleted lines of merchandise will be hard to replace—notably textiles.

INDUSTRY—Estimated cost of Pacific War after V-E Day raised to $71 billion a year.

COMMODITIES—Farm products advance sharply to near war-time peak, spurred by 4-cent boost in wheat ceilings.

The Business Analyst

Per capita **business activity** has picked up another 1% during the past fortnight and is still 0.6% above last year. All components of this publication's weekly business index, save bituminous coal production, report better than normal seasonal improvement. The index for November sagged 0.1 point from October, to 156.5% of the 1935-9 average, at which level it was 2.5 points ahead of November, 1943. Without compensation for population growth, the index averaged 167.6 in November—2.8% above November of last year.

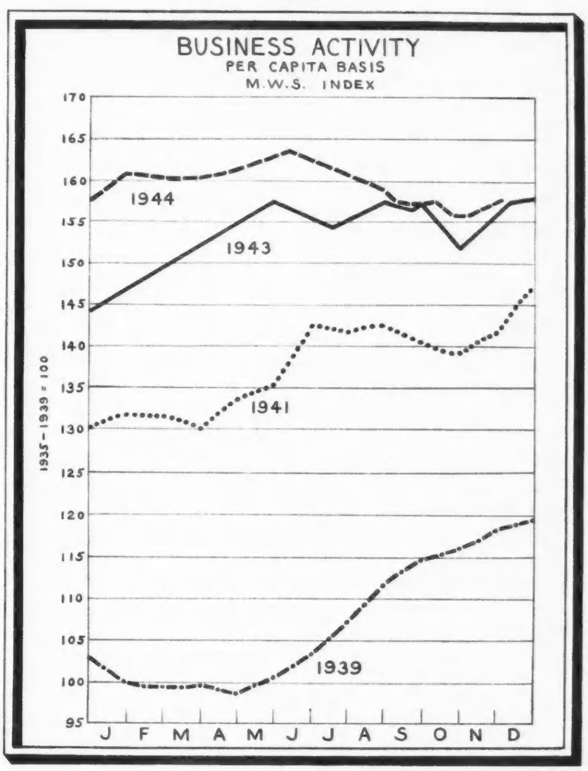
* * *

Retail store sales in October were 4% ahead of the like month a year earlier. **Department store sales** in the week ended Dec. 2 and for four weeks were 13% heavier than last year, compared with a cumulative gain of only 9% for the year to date. With the holiday shoppers' rush starting earlier this year and promising to last longer than ever before, merchandise stocks will be depleted by the end of the month and in a number of categories, notably textiles, hard to replace.

* * *

Yet the **Sixth War Bond Drive**, with a week

(Please turn to the following page)



Inflation Factors

	Date	Latest Wk. or Month	Previous Wk. or Month	Year Ago	Pre-Pearl Harbor
FEDERAL WAR SPENDING (tf) $b	Dec. 6	1.68	2.00	1.95	0.43
Cumulative from Mid-1940	Dec. 6	238.5	236.8	147.8	14.3
FEDERAL GROSS DEBT—$b	Dec. 6	224.8	214.1	166.1	55.2
MONEY SUPPLY—$b					
Demand Deposits—101 Cities	Dec. 6	35.8	38.5	34.1	24.3
Currency in Circulation	Dec. 6	25.1	25.0	20.1	10.7
BANK DEBITS—13-Week Avge.					
New York City—$b	Dec. 6	6.06	5.63	5.20	3.92
100 Other Cities—$b	Dec. 6	7.99	7.61	7.75	5.57
INCOME PAYMENTS—$b (cd)	Oct.	13.67	13.68	12.69	8.11
Salaries & Wages (cd)	Oct.	9.39	9.28	8.77	5.56
Interest & Dividends (cd)	Oct.	0.80	1.29	0.82	0.55
Farm Marketing Income (ag)	Oct.	2.45	1.95	2.25	1.21
Includ'g Govt. Payments (ag)	Oct.	2.48	2.01	2.28	1.28
CIVILIAN EMPLOYMENT (cb)m	Oct.	52.2	52.2	52.2	50.4
Agricultural Employment (cb)	Oct.	8.8	8.7	8.4	7.7
Employees, Manufacturing (lb)	Oct.	15.7	15.9	17.2	13.6
Employees, Government (lb)	Oct.	5.9	5.9	5.8	4.5
UNEMPLOYMENT (cb) m	Oct.	0.6	0.8	0.9	3.3
FACTORY EMPLOYMENT (lb4)	Oct.	154	156	170	141
Durable Goods	Oct.	207	210	232	168
Non-Durable Goods	Oct.	113	114	122	120
FACTORY PAYROLLS (lb4)	Sept.	313	314	328	189
FACTORY HOURS & WAGES (lb)					
Weekly Hours	Sept. 6	44.9	45.2	44.7	40.3
Hourly Wage (cents)	Sept. 6	103.1	101.6	99.3	78.1
Weekly Wage ($)	Sept. 6	46.25	45.86	44.39	32.79
PRICES—Wholesale (lb2)	Dec. 2	104.2	104.1	102.8	92.2
Retail (cdlb)	Oct.	139.3	139.3	135.4	116.1
COST OF LIVING (lb3)	Oct.	126.4	126.5	124.4	110.2
Food	Oct.	136.4	137.0	138.2	113.1
Clothing	Oct.	141.7	141.4	133.3	113.8
Rent	Oct.	108.2	108.2	108.0	107.8
RETAIL TRADE					
Retail Store Sales (cd) $b	Oct	6.05	5.89	5.79	4.72
Durable Goods	Oct.	0.89	0.82	0.85	1.14
Non-Durable Goods	Oct	5.16	5.07	4.94	3.58
Dep't. Store Sales (mrb) $b	Oct.	0.59	0.54	0.55	0.40
Chain Store Sales (ca)	Oct.	197	194	181	151
MANUFACTURERS'					
New Orders (cd2)—Total	Oct.	319	299	284	212
Durable Goods	Oct.	460	429	421	265
Non-Durable Goods	Oct.	229	215	197	178
Shipments (cd3)—Total	Oct.	283	273	270	183
Durable Goods	Oct.	387	370	371	220
Non-Durable Goods	Oct.	209	198	191	155
BUSINESS INVENTORIES—$b					
End of Month (cd)—Total	Sept.	27.8	27.8	28.4	26.7
Manufacturers'	Sept.	17.2	17.3	17.7	15.2
Wholesalers'	Sept.	4.0	4.0	3.9	4.6
Retailers'	Sept.	6.6	6.5	6.8	7.2
Dept. Store Stocks (rb2)	Sept.	160	170	160	139

PRESENT POSITION AND OUTLOOK

(Continued from page 315)

yet to go as of present writing, is already over the top by more than a billion dollars. The Treasury recently gave out the encouraging news that War Bond **redemptions** prior to opening of the drive were running at only 8% of bonds sold, compared with 15% withdrawals from savings banks during the past year.

* * *

Profits after taxes reported for nine months by 265 leading industrial companies show an increase of nearly 3% over the like period last year. Most of the improvement is attributable to sharp gains enjoyed by the coal, chemical, petroleum and automobile industries. Government economists predict corporate profits of only $8 billion for next year, against $9 billion in the current calendar year.

* * *

Corporate net **working capital**, exclusive of banks and insurance companies, reached a new high of $44.3 billion on June 30. On top of this was an accumulation of $1.8 billion in refundable taxes. The SEC estimates that net working capital will rise to $47 billion by the year-end, and adds a comment that the increase in net working capital during the second quarter approximately equalled retained profits.

* * *

WPB estimates **construction** volume for the current year at $3.84 billion and predicts that it will be somewhere between $3.15 billion and $4 billion next year, depending upon how soon Germany is defeated.

* * *

To speed output of munitons in which there is a threatened shortage the WPB has suspended for 90 days further authorizations under the "spot" plan for resumption of **civilian production** in tight labor areas. Previous authorizations, to the amount of $334 million, have not been revoked. The Board has authorized construction of new morter ammuniton plants to cost $500 million.

* * *

At the same time General Somervell warned industrialists not to look forward to relaxation after V-E Day; since estimates of the **cost of war** against Japan have been hiked to $71 billion a year.

* * *

Announcing that **government loans** by the U. S. have already been requested by several foreign nations, Dean Acheson, Assistant Secretary of State, has pointed out that the Johnson Act, which prohibits private lending to countries in default on American loans, should be repealed. Meanwhile Government loans abroad can be handled through the Export-Import Bank whose

PRODUCTION AND TRANSPORTATION

	Date	Latest Wk. or Month	Previous Wk. or Month	Year Ago	Pre-Pearl Harbor
BUSINESS ACTIVITY—1—pc	Dec. 2	159.8	156.8	156.8	141.8
(M. W. S.)—1—np	Dec. 2	169.0	168.0	166.1	146.5
INDUSTRIAL PRODUCTION (rb3)	Oct.	220	231	247	174
Durable Goods, Mfr.	Oct.	342	344	374	215
Non-Durable Goods, Mfr.	Oct.	169	169	179	141
CARLOADINGS—t—Total	Dec. 2	808	769	863	833
Manufactures & Miscellaneous	Dec. 2	396	371	393	379
Mdse., L. C. L.	Dec. 2	106	98	106	156
Coal	Dec. 2	170	163	186	150
Grain	Dec. 2	48	46	56	43
ELEC. POWER Output (K.w.H.) m	Dec. 2	4,524	4,369	4,560	3,269
SOFT COAL, Prod. (st) m	Dec. 2	11.8	11.3	13.1	10.8
Cumulative from Jan. 1	Dec. 2	577	565	544	466
Stocks, End Mo.	Oct.	65.1	64.9	68.8	61.8
PETROLEUM—(bbls.) m					
Crude Output, Daily	Dec. 2	4.71	4.73	4.38	4.11
Gasoline Stocks	Dec. 2	80.43	79.63	69.91	87.84
Fuel Oil Stocks	Dec. 2	61.73	62.84	60.86	94.13
Heating Oil Stocks	Dec. 2	45.83	47.10	44.45	54.85
LUMBER, Prod. (bd. ft.) m	Dec. 2	554	497	605	632
Stocks, End Mo. (bd. ft.) b	Nov.	3.8	4.1	4.1	12.6
STEEL INGOT PROD. (st.) m	Nov.	7.26	7.58	7.37	6.96
Cumulative from Jan. 1	Nov.	82.0	74.8	81.6	74.69
ENGINEERING CONSTRUCTION AWARDS (en) $m	Dec. 7	18.1	36.0	34.7	93.5
Cumulative from Jan. 1	Dec. 7	1,654	1,636	2,972	5,692
MISCELLANEOUS					
Paperboard, New Orders (st)t	Dec. 2	190	110	178	165
Anthracite Production (st)m	Oct.	5.59	5.44	5.36	3.83
Cigarettes, Domestic Sales—b	Oct.	19.8	20.0	23.5	17.1
Whiskey Withdrawals (tax gals.)m	Oct.	6.1	5.7	5.3	8.1
Do., Stocks, End Mo.	Oct.	333	341	399	506

PRESENT POSITION AND OUTLOOK

credit facilites, Mr. Acheson believes, should be expanded.

* * *

Under its post-war program of **planned inflation** the Administration hopes to limit the rise in living cost to 10% a year. There is talk of establishing $1 an hour as the minimum wage and the need for doubling our pro-war foreign trade to maintain full employment. The two goals are mutually incompatible unless other nations inflate proportionately. Otherwise a high price level in the U. S. will call for export subsidies, import tariff barriers and international cartels to control output and prices.

* * *

The Budget Bureau has prepared a "confidential report for Congressional and Treasury exports which is said to envisage a post-war **federal budget** of at least $30 billion. This would include $6 billion for interest on a national debt of $300 billion, $15 billion for the Army and Navy, $5 billion for veterans' benefits and $5 billion for "ordinary" Government expenses. Yield from present tax set-up, with a $150 billion national income is $47 billion. This includes $8 billion from excess profits taxes and special war-time excise taxes of $1 billion. Repeal the two latter and only $38 billion remains. Puzzle: try and balance the post-war Federal budget if the national income shrinks to $120 billion.

ag—Agriculture Dept. b—Billions. ca—Chain Store Age, 1929-31—100. cb—Census Bureau. cd—Commerce Dep't. cd2—Commerce Dep't., Jan., 1939—100. cd3—Commerce Dep't., 1939—100. cdlb—Commerce Dep't., (1935-9—100) using Labor Bureau & other data. en—Engineering News-Record. 1—Seasonally adjusted index, 1935-9—100. lb—Labor Bureau. lb2—Labor Bureau, 1926-100. lb3—Labor Bureau, 1935-9—100. lb4—Labor Bureau, 1939—100. m—Millions. mpt—At Mills, Publishers & in Transit. mrb—M. W. S., using F. R. B. data. np—Without compensation for population growth. pc—per capita basis. rb2—Federal Reserve Board, adjusted index (end Mo.) 1935-9—100. rb3—Federal Reserve Board, adjusted index, 1935-9—100. st—Short tons. t—Thousands. tf—Treasury & R. F. C.

THE MAGAZINE OF WALL STREET COMMON STOCK INDEX

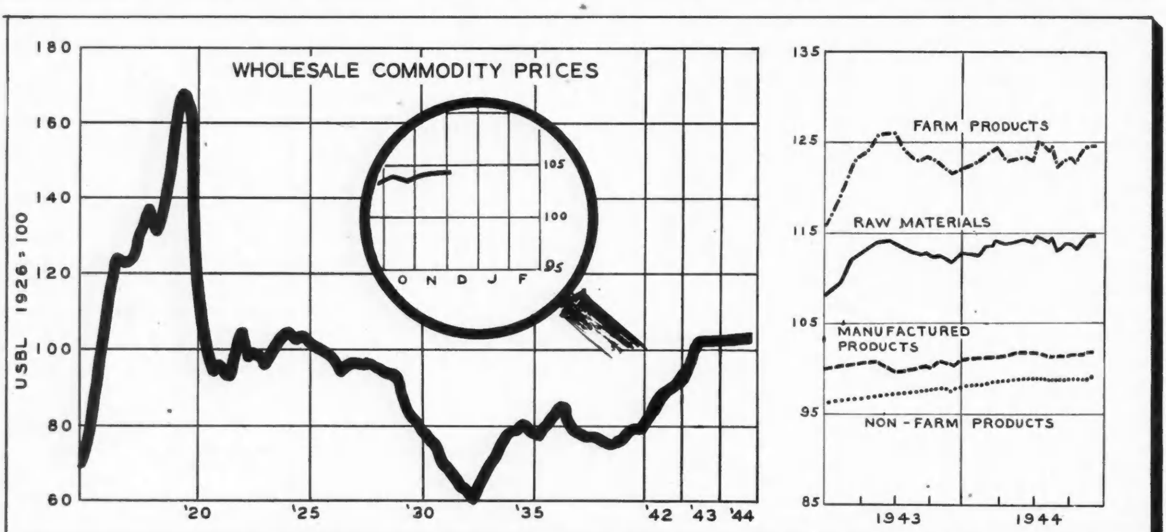
No. of Issues (1925 Close—100)	1944 High	1944 Low	Indexes Dec. 9	Indexes Dec. 16
283 COMBINED AVERAGE	104.4	79.5	102.0	104.4G
4 Agricultural Implements	178.9	148.6	167.3	171.3
9 Aircraft (1927 Cl.—100)	163.2	118.5	150.8	153.5
5 Air Lines (1934 Cl.—100)	580.2	421.9	567.6	580.2R
5 Amusement	83.7	68.2	83.7N	83.2
13 Automobile Accessories	183.9	119.0	180.8	180.8
12 Automobiles	34.3	17.6	33.5	33.8
3 Baking (1926 Cl.—100)	15.0	12.9	14.0	14.2
3 Business Machines	220.0	171.9	216.8	220.0G
2 Bus Lines (1926 Cl.—100)	125.2	101.9	122.5	122.1
5 Chemicals	197.6	176.0	188.2	191.4
4 Communication	78.3	57.1	70.2	72.2
12 Construction	43.0	33.1	42.2	42.7
6 Containers	286.4	220.1	280.3	280.0
8 Copper & Brass	75.0	62.5	70.8	72.7
2 Dairy Products	48.0	38.6	48.0N	47.9
6 Department Stores	41.6	28.2	41.4	41.6G
5 Drugs & Toilet Articles	113.3	81.0	111.3	112.8
2 Finance Companies	248.9	216.1	229.6	222.4
7 Food Brands	141.7	123.1	135.1	135.6
2 Food Stores	55.0	46.5	54.7	54.9
4 Furniture	83.1	56.4	79.2	78.3
3 Gold Mining	1075.2	879.8	937.3	930.0

(Nov. 14, 1936, Cl.—100)	High	Low	Dec. 9	Dec. 16
100 HIGH PRICED STOCKS	73.26	62.77	72.86	73.26F
100 LOW PRICED STOCKS	110.00	75.33	107.89	110.00G
6 Investment Trusts	45.4	34.0	44.6	45.4G
3 Liquor (1927 Cl.—100)	385.8	291.4	372.1	385.8R
8 Machinery	139.4	105.2	138.4	139.4G
2 Mail Order	101.0	82.5	100.8	101.0G
3 Meat Packing	70.8	55.5	70.8G	70.1
11 Metals, non-Ferrous	150.4	116.4	140.7	145.2
3 Paper	20.0	12.9	19.5	20.0G
22 Petroleum	143.5	121.3	136.7	140.4
19 Public Utilities	59.9	48.7	53.6	56.1
4 Radio (1927 Cl.—100)	31.1	21.5	27.9	27.9
7 Railroad Equipment	71.3	51.5	69.0	71.3G
18 Railroads	22.4	14.1	21.5	22.4G
2 Shipbuilding	101.5	70.3	95.3	101.5A
3 Soft Drinks	392.2	305.2	389.7	392.2R
12 Steel & Iron	82.7	65.7	80.7	81.8
3 Sugar	56.2	41.7	56.2Q	55.7
2 Sulphur	178.2	160.7	167.2	168.2
3 Textiles	57.6	48.0	56.6	57.3
3 Tires & Rubber	33.9	25.4	33.5	33.8
4 Tobacco	74.2	60.2	68.5	67.7
2 Variety Stores	259.3	219.7	257.3	258.1
21 Unclassified (1943 Cl.—100)	136.4	98.7	135.2	136.4A

New HIGH since: A—1943; F—1938; G—1937; Q—1929. R—New all-time HIGH.

Trend of Commodities

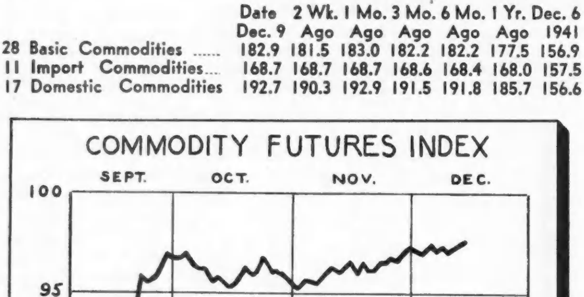
Beginning with the current issue we are presenting in the graph and table below The Magazine of Wall Street's weekly index of Raw Materials Spot Prices. There are 14 components in this index—5 metals, 3 textile fibres; wheat, corn, sugar; hides, rubber and petroleum. Owing to its composition it is obvious that the index, even in peace time, will not fluctuate over so wide a range as the adjoining futures index made up largely of farm commodities. On Aug. 26, 1939, the week before war was declared in Europe, our Raw Material Index stood at 63. It had risen to 85 (35%) by Dec. 6, 1941, just prior to Pearl Harbor. From Pearl Harbor to date the additional rise has been only 13.8%, which speaks well for the Government's efforts to limit inflation. Under leadership of wheat, for which ceiling prices have just been jumped 4 cents, farm commodities have rallied sharply since our last issue to within less than 1% of the war-time high. Under the Administration's program of "planned inflation" it looks as though commodity prices will continue to advance, gradually and irregularly, for some time to come. Flour ceiling, and production subsidy of 19 cents a bushel, will remain unchanged for the remainder of the year; but the latter will be raised on Jan. 1 to conform with the higher ceilings on wheat. The CCC foresees a sugar shortage for the rest of the war until Java can supply Europe and the Philippines America. Sugar quotas of candy and beverage producers for the first quarter have been cut 12½%. It looks like a long wait until the return of adequate supply.



U. S. DEPARTMENT OF LABOR INDEX OF 28 BASIC COMMODITIES

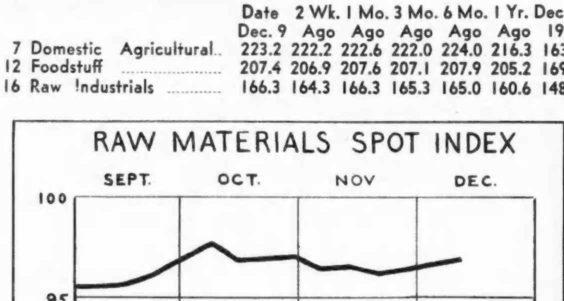
Spot Market Prices — August, 1939, equals 100

	Date Dec. 9	2 Wk. Ago	1 Mo. Ago	3 Mo. Ago	6 Mo. Ago	1 Yr. Ago	Dec. 6 1941
28 Basic Commodities	182.9	181.5	183.0	182.2	182.2	177.5	156.9
11 Import Commodities	168.7	168.7	168.7	168.6	168.4	168.0	157.5
17 Domestic Commodities	192.7	190.3	192.9	191.5	191.8	185.7	156.6
7 Domestic Agricultural	223.2	222.2	222.6	222.0	224.0	216.3	163.9
12 Foodstuff	207.4	206.9	207.6	207.1	207.9	205.2	169.2
16 Raw Industrials	166.3	164.3	166.3	165.3	165.0	160.6	148.2



Average 1924-26 equals 100

	1944	1943	1942	1941	1939	1938	1937
High	98.13	96.55	88.88	84.60	64.67	54.95	82.44
Low	92.44	88.45	83.61	55.45	46.50	45.03	52.03



14 Raw Materials, 1923-5 Average equals 100

Aug. 26, 1939—63.0. Dec. 6, 1941—85.0

	1944	1943	1942	1941	1939	1938	1937
High	97.6	96.0	89.1	85.7	78.3	65.4	91.5
Low	94.9	89.3	86.1	74.3	61.4	57.5	64.7

Business

(*Continued from page 284*)

est sense, goes for most of the new products so frequently promised in glowing terms for the postwar era. Since most of them would merely substitute older products, their rapid and perhaps disorderly introduction to the masses could be extremely unsettling.

We all know how emergence to great popularity of rayon, for instance, has unsettled not only the cotton trade but our cotton growing South as well. Sudden introduction, on a large scale, of new products, new materials, new conveniences and new processes could easily have comparable damaging effects in a multitude of directions, posing social and economic problems of the first magnitude.

The number of potential pitfalls is great indeed; so are the opportunities for unsettlement in the name of progress. Over-fast spending of the public's war-time savings may for example set in motion trends and effects which we may have reason to regret for a long time.

Cause and effect may do things to our social and economic organization which may be difficult to anticipate. Availability of cheap prefabricated housing may awaken in us the nomad spirit, undermining the stability that heretofore went with a fixed home. Television may do unpleasant things to the moving picture industry and the legitimate stage. The effects of air transportation on merchandising is something that is only beginning to be explored in business circles, yet it may lead to far-reaching shifts in habits and procedures.

There can be no doubt that progress, in every field, will create new patterns and new routines, new habits and changes in human behavior. Because this is so, progress must be guided rather than haphazard, lest neglect of the human element lead to deplorable social and economic consequences.

This is not to imply that progress is undesirable. The contrary is true but progress must always be balanced unless we want to destroy old foundations before new ones can be built. Without proper foundations, however, our whole economic and social structure would be endangered, a risk we can ill afford in this difficult age of ours.

The moral for the investor? It can only be eternal watchfulness for progress in one field may spell decay in another. New human behaviors arising from a multitude of causes may ultimately be translated into dollars and cents terms, as so frequently in the past, in surprising fashion. Understanding watchfulness may minimize the surprise element.

Corporate Earnings Potentials Under Revised War Outlook

(*Continued from page 287*)

limiting the year's net decline in economic activity to fairly small proportions. Should Germany be beaten this winter, on the other hand, only the first quarter and perhaps a small part of the second quarter would see industrial volume maintained near peak levels, and the better part of three quarters of the year would be a slump period. As here used, the term "slump" is, of course, relative. Whatever the actual production requirements for war with Japan prove to be, they will be high enough to insure volume that would have been considered an unprecedented industrial boom—if we had not seen it still higher during the European war.

Investors naturally are striving to relate the prevailing projection of longer war—and greater war production—to the outlook for corporate earnings and the stock market. It surely is not coincidence that recent strength in the market developed with the increasing emphasis on delayed victory—which would proportionately postpone the time when the matter of reconversion will have to be grappled with—and that this advance has been paced by the railroad group which in earning power and solidly improved financial position has been perhaps the outstanding war beneficiary. But, excepting the rails, there is not up to this writing any evidence of a decisive shift of speculative or investment preference to "war stocks" as a generality. Enthusiasm for the leading steels and for the coppers seems tepid, while aircraft equities have been persistently lagging in recent weeks.

Only time will tell whether the market is really "sold" on the idea of long war, high industrial production for the greater part of 1945, sustained corporate earnings very little different from present profit levels. One swallow in the market, as elsewhere, does not make a summer.

With so many "ifs" in the picture, to the writer it appears very questionable whether this possibly transient pyschology of longer war should be

permitted to affect investment decisions as to intermediate-term market potentials and as to the relative merits of different types of stocks. Some companies—and that goes for the more speculative rails—have present earnings so abnormally good that they can not possibly be maintained indefinitely. Some companies have much more dubious reconversion-period and post-war prospects than others. In trying to make prudent investment distinctions, what does it matter if peace in Europe may prove to be three or six months more distant than most people thought a few months ago? It seems probable that varying market evaluations of individual stocks will continue to be based mainly, as long has been the case, on calculations or hopes of their peace-time earnings rather than on war profits. If this is true, the question of whether the cutback in production after V-E Day is to be 20 per cent or 50 per cent—and of whether Japan may be beaten in 1945 or in 1946—may have less influence on investment policy and interim market potentials than some people presently imagine.

In the accompanying tabulation we show earnings, expressed as percentage return on net worth, for a large number of stock groups for the years 1938 through 1943. Since net worth on the average has changed very little during the war period and since in each group there are enough companies represented to make the return figure typical, this is a true measure of war-time changes in corporate earning power. The instances of sharp distortion—up or down—as compared with the pre-war year 1939 are particularly worthy of notice since they necessarily imply an abnormality unlikely to be continued indefinitely.

Some of the sharpest gains have been in rails, meat packing, sugars, cotton goods, woolen goods, and aircraft. Groups on which the recent rate of return seems abnormally low and capable of longer-term improvement include soft drinks, tobacco products, automobiles and mail order companies. Considering the huge expansion of volume, the moderate changes in percentage earned on net worth by the majority of groups since 1939 is perhaps most notable of all.

The Bank Stocks

(Continued from page 295)

tionships with the big corporations which in the past twenty years up to the outset of the war had been financing themselves mainly through the capital markets. In view of these mutually beneficial dealings, these corporations may elect to remain with the banks rather than utilize the facilities of the capital market after the war is over. In this connection, it should be kept in mind that the banks have a decided competitive advantage in that bank loans to large corporations are outside the jurisdiction of the SEC.

5. As war production is curtailed upon the conclusion of hostilities, banks in war centers, and in agricultural areas where the slackened demand for farm products is likely to affect the position of the farmers adversely, will in all probability lose deposits and will be forced to dispose of Government securities to meet this outflow. Banks in New York City and in other financial centers which had lost funds during the war will most likely regain funds, as the distribution of bank deposits returns to the more normal peacetime pattern based on the regional flow of trade. The banks in New York will thereby be enabled to acquire the securities the interior banks will be forced to sell, and their earnings will consequently rise more rapidly than those of the banking system as a whole.

6. The funds to pay for Government securities and to make new loans will come from (1) the return flow of currency from circulation, (that is deposits in the banks of currency by business men and others) when the need for cash balances will be reduced because of lower payrolls and less active retail trade, and (2) from the inflow of gold from abroad as our foreign trade goes on a cash basis upon the discontinuance of Lend-Lease.

The common stock issues of the more important New York City banks and a few of the larger out-of-town banks are analyzed in the accompanying table. The wartime growth of the New York banks, as measured by the increase in total deposits, was on the order of 30-40 per cent, and around 60 per cent for the out-of-town institutions shown. Where deposits have increased more rapidly, other factors aside from Treasury war financing are responsible including more aggressive management, bank mergers and establishment of additional branches.

Although the growth in deposits in itself does not measure the growth in bank eanings owing primarily to differentials in the experience of individual institutions with respect to recoveries on assets previously written off as losses, the establishment of a higher level of deposits does mean, for most banks, a permanently higher level of net earnings before write-offs, losses and recoveries. And the importance of these latter factors as bank earning determinants should diminish rapidly in the future, as already noted, what with most of the banks reporting 65 per cent or more of their earning assets in Government securities.

It would appear from column 2 of the table that practically all the banks listed are currently employing all available funds in productive channels, and that there is therefore little opportunity of augmenting earnings by more intensified use of funds. As for stability of earning power as indicated by column 3, the Corn Exchange Bank, the First National of New York, and J. P. Morgan appear to be in premier positions. With 80 per cent or more of loans and investments consisting of Government securities it is difficult to see any falling off in the earnings of these institutions after the war.

With so many of the banks almost investment trusts in Government securities, the selection of bank stocks as investments or speculations turn less on differences in the quality of

(Continued on page 322)

DIVIDEND NOTICES

management, the type of banking business specialized in (large corporate accounts, or small accounts, no branches, or a few or many branches, large foreign business, etc.), and the kinds of loans normally made, than on the arithmetic of current earnings, dividends, book values, and market quotations. On the basis of the latter considerations (as well of course as on the former) it would appear that the most attractive issues are those of the National City Bank of New York, Chase Bank, Manufacturers Trust, Bank of America (Cal.), and the First National of Chicago. J. P. Morgan, Bankers Trust, Public National, and Bank of Manhattan look equally good, but since they have only recently taken action to augment their dividends in one form or another, they may not have as bright prospects for appreciation. The First National of Boston is another particularly attractive situation.

National City Bank of New York is the second largest bank in the United States, and serves big interests and neighborhood small interests through its 65 domestic branches in New York City. It does a very large trust business through the wholly-owned City Bank Farmers Trust Company, and a very large foreign business which should increase and become an important income-producer in the postwar era. Income from loans has accounted for about one-fourth of gross income in recent years. This too should expand after the war in view of the bank's leading position in small business and consumer loans. Net indicated earnings in the last two years (1943 and 1944) have been abnormally high reflecting profits and recoveries from the sale of part of its large real estate holdings and substantial equity interests.

Possibilities of further recoveries are considered good. Even after allowance for nonrecurring income the dividend on National City common will probably be earned three times. The way is clear for increased dividends, and it is currently rumored that a stock dividend may be declared. If so, it will have to await the convening of stockholders since it is understood that proxies have been mailed out without recommendation by directors with respect to any action on dividends. Recent sale of properties indicates that realizable values are in excess of book values, and this fact together with substantial hidden reserves and the definitely higher level of operating income should pave the way for stockholders action.

Chase National Bank, the largest banking institution in the United States, does a business similar to that of the National City, rendering a complete banking service. It is not quite the neighborhood bank that National City is, however, inasmuch as Chase operates somewhat less than half the number of branches that City Bank does. Chase's earnings have exceeded dividends for many years, and as a result, despite transfer of large amounts to surplus, the bank's contingency reserve rose to $10.8 million September 30, 1944. At the end of 1933, this reserve amounted to only $6.5 million. During 1943, Chase disposed of substantial holdings of common stocks of Home Insurance, West Indies Sugar, National Theaters, General Precision Equipment, Twentieth-Century Fox common, and a block of Fox preferred. By the end of that year, holdings of miscellaneous stocks amounted to 3.5 million dollars. Sale of these shares may have been instrumental in increasing net indicated earnings after write-offs and recoveries to $5.09 a share in 1943 and probably accounts for the decline in net for the twelve months ended September 30, 1944. Net operating income before nonrecurring profits, however, is estimated at 10 per cent higher than in 1943. Approximately 69 per cent of total loans and investments consisted of Government securities on September 30, 1944, the average maturity of which was less than two years at the end of 1943. The dividend will be earned almost 3 times in 1944, and the stock sells at a comparatively low price-earnings ratio for a bank stock.

Manufacturers Trust Company's business is akin to that of the Chase and National City in that Manufacturers offers a thoroughly diversified banking service and maintains 67 neighborhood branches throughout New York City. In addition, by acquiring the Mortgage Corporation's business in 1941, Manufacturers has become a leading mortgage manager. During the war, the bank attempted to diversify more fully its loans by expanding credits to war industries. Formerly, Manufacturers had been a heavy lender to the garment trade. The management of this institution has been unusually active and progressive. It was among the first banks in the city to establish a specialized loan department to handle personal loans, industrial time payment, commodity, and accounts receivable loans. Net indicated earnings for 1944 appear to be the highest for several years and to exceed dividend rate by almost 2½ times. Unpaid German credits and claims have been either entirely written off or fully covered by reserves.

Aggressive management under the guidance of the A. P. Giannini interests has made the *Bank of America* the third largest commercial bank in the United States, the largest savings institution, the largest branch banking system (488 branches), and the bank with the largest number of depositors and the largest number of borrowers. Although much of the achievements of this bank may be attributed to the branch banking laws of California, the progressiveness of the management is indicated in the way the lending business of the Bank of America has been built up. The usual bank lending tradition of the straight line of credit loan to the business concern was early dropped by the management in favor of time payment loans to consumers. FHA insured loans and other real estate loans.

Loan income has dropped sharply relative to total income in recent years, from 59 per cent in 1941 and 1942 to 45 per cent in 1943. With the restrictions on consumer credit and on nonessential construction of residences, the income from loans must have contracted further in 1944. The Bank has nevertheless

been able to maintain earnings at high levels. In 1944, a transfer of almost 14 million dollars from the reserve for war contingencies to undivided profits has added almost $3.50 a share to net indicated earnings. Without this nonrecurring item, earnings in the twelve months ended June 30, 1944 would have been 11 per cent higher than in the calendar year 1943 rather than more than 100 per cent higher as shown in the table. Government securities have now become the major asset of the bank. In view of the nature of this institution's loan business and the aggressiveness of its management, it would appear that the postwar outlook for increased earnings from loans is bright. This increase is likely to come on top of a permanently higher level of investment income from Government securities, even though some loss of deposits of this bank to the large eastern banks may develop after the war.

The First National Bank of Chicago is one of the best managed banks in the windy city. It is the second largest in Chicago and the sixth largest in the country. One of the so-called loop banks, the First National offers a diversified banking business. Among the reasons for the comparatively high earnings of this institution is the emphasis placed on thrift accounts. Thrift accounts carry much smaller legal reserve requirements (6 per cent) than do commercial and other demand accounts (20 per cent), and therefore permit a much greater secondary expansion of deposits effected through expansion of loans and investments. In 1943 net earnings before write-offs and other adjustments reached the highest level in more than a decade. In 1944, they are expected to increase another 15 per cent. Net indicated earnings in 1943 and in the twelve months ended June 30, 1944 have been swollen by special transfers of funds from reserves for assets previously written off to the undivided profits account. Before such adjustments, however, earnings on the common stock which carries a dividend rate of $8 a share are likely to exceed $16 a share. So favorable have been the results of operations in recent years that in December 1943, the First National of Chicago paid a 66 2/3 per cent stock dividend and at the same time increased its cash dividend.

In selecting certain banks for separate discussion, it was not meant to overlook other institutions with equally good or almost as good prospects for higher earnings. Most of the banks in the analytical table are in a position to augment their dividends on the basis of earnings for 1943 and 1944 (through September 30). Among those with "equally good" prospects should be mentioned the First National Bank of Boston with net earnings either before or after write-offs, etc. the highest in that institution's history, and J. P. Morgan with earnings four times the increased dividend rate.

As customary, the yields on the bank stocks given in the table are low, and the price-earnings ratios high. In view of the fact that in most instances, net earnings of the banks in 1943 or 1944 are higher than in 1937 when bank stocks were about one third higher in price than they were in early December 1944, the current price-earnings ratios are still considerably below those obtaining during the previous peak.

Around the World

(*Continued from page 303*)

ternational Affairs. What they mainly seek is modernization of agriculture with assurance of stable markets and some industrial development, all on a coordinated plan to be backed politically and financially by the Allies.

They propose that the peasant leaders in the various countries agree on a plan for intensified farming with the aid of expert knowledge and modern machinery made available through cooperative societies; that somehow, markets and price stability are secured both internally and externally, that transport should be improved, hydro-electric power projects developed and irrigation systems introduced. To take care of surplus farm labor inevitable in the wake of greater mechanization of the farming process, establishment of light industries is suggested. All that, of course, requires outside capital and appropriate trade policies by outside nations. Significantly, therefore, the proposed program closes with the remark that "liberation will be complete only if our Allies are prepared to make with us a sustained effort of long-term reconstruction."

What prospect of materialization of such a program? Judging by past experience, the outlook is not encouraging. America and Britain have never risked much capital in Central Europe because there was no assurance of political stability. The latter, after the war, is far from assured; political unrest today runs high and the situation may further deteriorate. Seventeen nationalities dwell in this agricultural belt, largely intermingled but seldom friendly; this explains why it was always a discordant group. Germany, the region's natural market, may have little buying power left. And casting its shadow over all of Europe is the new Russia with its dominant political position, likely to be translated into economic terms as well when the conflict is over. Russia, however, could hardly become a market for Central European agriculture, except temporarily in the immediate post-war period.

That market lies west and there it will clash with overseas products, with American, Canadian and Argentine cereals and the numerous other products of the world's great agricultural producing countries. Will America and Britain risk capital to foster competitive agricultures in Central Europe? It seems hardly likely. The problem, I fear, will remain unsolved unless simplified by political action along lines hard to foresee.

Roller Bearings

(*Continued from page 301*)

7.1 for Timken, 3.9 for the smaller company. If post-war volume is as large as was suggested earlier in this discussion, it may be difficult for both companies to reestablish prewar ratios if they do no financing and if their customary liberality in dividend policy is continued, as seems probable. It should be noted that the ratio cited for Bower includes a V-type bank loan of $3,000,000 made solely for wartime working capital needs, and that without this the latest current ratio would be considerably over 6 to 1.

Timken has paid unbroken dividends since 1921, possibly longer since that is as far back as records available to the writer go. Lowest payment was 70 cents in 1933. Current indicated rate is $2, yielding only 3.9 per cent. With the exception of 1933, Bower has paid something in each year since 1929, current indicated rate of $2.50 yielding 5.7 per cent.

Both stocks have a great deal in investment merit and purchases for income and appreciation appear warranted in periods of market reaction. In the writer's opinion, the present premium on Timken is a bit too great and—taking lower price and higher yield into account, as well greater per cent earned both on invested capital and market valuation—Bower Rol-

ler Bearing is now the more attractive of the two. Perhaps even greater statistical value—and certainly the largest yield of all three—are offered by Marlin-Rockwell but the writer can not favor over-the-counter companies which are very slow in issuing annual reports and which will have no truck at all with interim reports.

Is Controlled Inflation Possible?

(Continued from page 289)

were no longer reduced.

While it varies from year to year, long experience—not materially altered by any changes of recent years—suggests that the long-term rate of technical progress in the manufacturing industries, as measured by output per man-hour, is around 3 per cent a year. Obviously, then, this figure sets a proportionate limit on continuing wage increases if they are to be economically supportable.

But even that is not the whole story. Factory workers normally make up less than one-fourth of the gainfully occupied population. If they got the entire benefit, in the form of higher wages, of an increment of 3 per cent a year in output per man-hour, then capital would be deprived of the inducement to make productive investments and consumers would be deprived of the purchasing power increment which gains in manufacturing efficiency formerly made possible.

One of the accompanying charts compares average hourly earnings in 25 manufacturing industries with average output per man-hour, both put on an index basis 1939=100, for all years 1929 through 1943. In the depression years 1929-1932, though not exactly prospering, employers, of course, had the best of this equation. From 1929 through 1933, hourly earnings declined almost 30 per cent while output per man-hour increased nearly 10 per cent.

In the single year 1934 (New Deal and NRA) hourly wages made the remarkable jump of 18 per cent—a figure not subsequently equalled even in the war years—but still did not overtake the index of output per man-hour. By 1937 the position was reversed, with the hourly wage index 5 points above the index of output per man-hour. The spread increased further to 7 points, in favor of wages, in the depression year 1938. It has, of course, tended to widen sharply in recent war years. By 1942 it was 16 index points higher for hourly wages than for per man-hour output, and for 1943 it was 22 index points higher. As compared with 1929, the 1943 index of output per man-hour was 57 per cent greater, the index of hourly wages about 70 per cent higher. As compared with the pre-war year 1939, the end of 1943 found the latter index 40 per cent higher, against an increase of only 18 per cent in output per man-hour.

In the ten years 1929-1939 average output per man-hour increased at an average annual rate of about 3.26 per cent. In the four years 1940-43, reflecting both exceptionally rapid innovation in production techniques and the commendable war-time speedup of effort by the average worker, the annual rate of gain was about 4.5 per cent, but average annual rate of increase in hourly earnings was about 10 per cent or more than twice as great.

On the figures cited here it appears that average wage rates in manufacturing have "discounted" future increases in producing efficiency by nearly five years if we assume continuance of gain in output per man-hour at the high war-time average rate of 4.5 per cent a year; by over six and a half years if we assume future gain in efficiency approximating the average of 1929-1939.

It is open to serious question, therefore, whether a further rise in hourly wage rates after defeat of Germany would have the stimulating economic effects which its proponents promise. Other things being equal, it would discourage venture investment, encourage investment aimed at saving as much labor as possible in existing plants, limit employment opportunities. But other things are not equal. With continuing war against Japan, the Government will still be a huge buyer of the output of industry, and taxes will remain high. For both reasons the major part of the cost of economically excessive wages will continue to be absorbed by the United States Treasury, and not until we have a full peace economy would the deflationary effects of our over-high wage costs visibly come home to roost again.

For a period of perhaps one to two years after victory in Europe, demand for consumer goods probably will remain out of balance with supply. The problem will not be lack of consumer purchasing power but deficient supply of goods. Otherwise, why is the Administration warning that the defense against inflation must be maintained until supply can be reasonably balanced with demand? But if this is correct the idea of further raising wages to stimulate purchasing power is inconsistent and paradoxical. If the economic prospect after V-E Day is so deflationary that we must plan to increase wage rates as an alleged offset, why do we need to continue price ceilings? On the other hand, if the continuing danger of inflation is so great that we must keep price ceilings, why must wage stabilization be abandoned as an anti-deflation measure? We will let somebody in Washington answer these questions, for the writer can offer no answers that make sense. Although there is room for difference of opinion as to whether the greatest pressure after V-E Day will be inflationary or deflationary, it would seem undeniable that it can not be both.

Some of the advocates of "controlled inflation" contend that we must have a higher price level in order to create the dollar volume of national income necessary if the vast Federal debt is to be tolerable and supportable. But higher prices of themselves can raise the real income only of producers of primary commodities. Prosperity is not really measured in money but in the things money will buy. Today there are fantastic quantities of money circulating in Greece and China—but no prosperity; on the contrary, dire poverty. The ideal price level is neither high nor low but one in which there are the fewest inequalities and the least unbalance; and at which the maximum volume of goods and services will move into consumption.

The fact that "controlled inflation" has not got out of hand during the war does not prove that control can be indefinitely successful, for our people have more or less cheerfully accepted control measures in war-time which never would be long tolerated in a political democracy after peace is attained. What we will need in peace is high production and employment. To put the emphasis on arbitrary wage-raising and "controlled" price inflation is to put the cart before the horse.

Burlington Mills vs. United Merchants

(*Continued from page 309*)

parent that in over-all status—or appeal—United's relative position has been substantially improved since 1939. Probably this is importantly accounted for by the differential in its favor with respect to wartime gain in net working capital and book value. It seems very doubtful that, within the foreseeable future either stock will return to such low price-earnings ratios as frequently prevailed during the years before the war. It also seems improbable that, on peace-time earnings, the divergence in future price-earnings ratios will be as unfavorable to United as was the case before the war. Less seasoned than Burlington, and with a more irregular pre-war earnings and dividend record, it got relatively little speculative-investment "notice" until its big rise in war-time earnings and market price provided "advertising." As a result, it was relatively more under-valued than Burlington before the war.

Both companies are financially sound, with an edge in favor of Burlington. Working capital ratio shown by latest available balance sheets was 3.7 for Burlington, 2.1 for United. In the pre-war year 1939, it was 2.4 for Burlington, 1.5 for United. An improvement in financial liquidity during the war period contrary to general industrial experience and, considering the very large expansion in volume of sales in these two instances, is a rather notable achievement. This impression is heightened by further inspection of key balance sheet items. For instance, the ratio of inventory to total current assets of Burlington is only 45.8 per cent, a sharp decline from 61.9 per cent figure at the end of 1939; while for United it is only 1.7 per cent, a slight increase from 0.2 per cent figure of 1939. The war-time improvement in the ratio of cash to total current liabilities is equally notable in both instances. For Burlington this is 86.3 per cent, against 19.7 per cent in 1939; for United it is 53.6 per cent, against 6.2 per cent in 1939.

Depreciated plant and equipment account of Burlington increased since 1939 only from $8,754,000 to $11,686,000; for United only from $5,320,000 to $8,727,000. Net working capital of Burlington is well over twice its property account, that for United nearly three times greater. Reserves (excluding tax accruals) increased since 1939 from $126,000 to $1,400,000 for Burlington; from $215,000 to $1,750,000 for United. Over the same period surplus account increased from $12,398,000 to $25,314,000 for Burlington; from $7,471,000 to $18,444,000 for United. Thus, both companies are in good financial condition to meet the difficulties and opportunities of the post-war world.

Burlington's indicated $2.10 dividend yields 5.3 per cent at current market price; United's cash dividend of $2 yields 4.7 per cent but it also paid a 10 per cent stock dividend this year. Dividend policy of both has been highly conservative, not only because of war-time working capital needs but because growth of demand for rayon, and long-term capital expansion to serve it, have required a policy of relatively heavy "ploughing back" of surplus earnings. On an average over the past decade, neither company has paid more than one-third of earnings.

With greatly improved financial positions and with plant expansion needs probably less urgent for near-by years than formerly, it appears likely the future ratio of dividends to earnings will be nearer the present levels than the pre-war average. Reasonably good current yields, plus a plough-back policy which builds up intrinsic values over the years, suggest possibilities of substantial long-term appreciation. However, both stocks at current prices are far removed from bargain-counter levels and purchases should be considered only on substantial reaction. The more conservative choice obviously is Burlington Mills, though somewhat greater speculative attraction may attach to United.

Timely Suggestions

(*Continued from page 298*)

redemption date, into 1¼ common shares for each preferred share held. Certain provisions protect the conversion privilege against dilution. The company earned $11.98 on the convertible preferred in 1943 as compared with $11.68 in 1942. In the first 26 weeks of 1944, earnings were $6.09 as compared with $6.84 for the same period of 1943. While the indicated income yield based on a price of 32½ is only 4.48%, the conversion feature makes this preferred stock an attractive speculation.

READING CO. This company's 1,425 miles of railroad provide intensive coverage of that highly developed region within a 100 mile radius of Reading, Penn. The principal terminal is Philadelphia, but the company has stock control of Jersey Central, affording harbor and terminal facilities in the New York City area. Allentown, Bethlehem and other important steel producing and manufacturing centers are served directly, as is the anthracite mining regions northwest of Reading. Relative stability of earnings has made for of a healthy financial position. Debt reduction is being accelerated from wartime earnings and maturities of the next decade should give little trouble. The 5% non-cumulative second preferred stock, par value $50, is junior to the 4% non-cumulative first preferred stock and there is a conversion privilege which provides that the company may, at its option, convert the second preferred stock, one half into first preferred and one half into common stock. Dividend requirements

on the second preferred were covered 6.3 times in 1943 as compared with 8.4 times in 1942 and 4.8 times in 1941. Dividends have been paid continuously on this second preferred stock since 1903 or for 41 years. Incidentally, the common stock of this company has paid dividends continuously since 1905. The second preferred appears to be an attractive purchase at current market price of 33 and the indicated income yield of 6.06% is liberal. However, to investors interested primarily in building up capital, we would point out that this stock sold as low this year as 27¼, showing that market price is subject to fluctuations.

The search by investors for income over the past few years has greatly accelerated in recent months and the rise of many securities to new high levels tended to pare yields quite drastically when compared, for instance, with 1942 returns. In the foregoing tables we have shown that some fairly substantial yields are still to be had on fairly good grades of preferred stocks but at the rate some have been advancing in recent weeks, lower yields are in sight.

In another table, the steady downward trend of yields for various types of securities is graphicaly illustrated. Shown are yields on May 1942, about the time when the averages were at their bear market lows and the start of the present bull market was not far off. Since then, yields narrowed consistently through 1943 with current returns the lowest in over two years.

As I See It

(Continued from page 279)

we know that our political philosophy is realistic—for it has produced the greatest good for all the people in a way that has never been achieved by any other system.

Instead of attempting to play power politics, labor should try to spread our tried and proven system of government among the other workers of the world, helping to raise the standard of living everywhere and banishing that spectre of poverty and want that is presently terrifying teeming millions into subservience.

But constructive labor leadership can do even more than that. It can unite internationally to stop wars so that in the future, instead of being a pawn in the game of power politics, it can be master of its own fate and bring hope to a weary and disillusioned world.

Answers to Inquiries

(Continued from page 314)

Hold These Stocks?

"I have just received a letter from Western Union Telephone & Telegraph Co. stating that it is going to return my Gold & Stock Telegraph Co. and Pacific & Atlantic Telegraph Co. shares and that they are not going to issue the Western Union 4% bonds they had planned to give for these shares. Is there anything new on these and should I continue to hold them."

—E. B. A., Walton, N. Y.

The shares of Pacific & Atlantic Telegraph Co. are dealt in through the "Over-the-Counter" markets and the latest quotation is reported as 16¼ bid and 17½ asked while Gold & Stock Telegraph is traded on the New York Stock Exchange and is selling around $175.00 per share. This latter stock has advanced from a level of $125.00 per share since the decision of the New York State Supreme Court was announced. It is more than 100% above the low of 1944, the yield is only about 3.4% and we believe you might well make a sale of the Gold & Stock shares since you can find attractive issues that bring in a more generous return.

As to Pacific & Atlantic Telegraph Co., these shares have not expanded rapidly in price as has the Gold & Stock for it was offered $17 in new bonds of Western Union as compared with $130 for Gold & Stock so that we may state the relative value of Pacific & Atlantic as 17/130 of the value of Gold & Stock or about $25.00 per share and since the present price is only about ⅔ of its relative value we would continue to hold it for possible price appreciation.

Hold Textron Bonds?

"A short time ago I purchased $10,000 Textron Inc. 5% debenture bonds due 1959 which have warrants attached that will permit me to buy common stock until 1947, the price changing each year. My broker tells me that the warrants are quoted around 2 and I assume he would like to have me sell them but retain the bonds. What would you advise?"

—N. S. B., Newark, Del.

If one of your objectives is appreciation we believe you should retain your Textron bonds and keep the warrants for the bonds with warrants attached are quoted around par while without the warrants they are quoted around 92. As it stands now such value as exists for the warrants is represented by the fact that they are a call on the stock at $12.50 to September 1945, $15.00 to September 1946 and $17.50 to September 1947. If the stock were to sell at $17.50 in 1945 the rights would have an actual value based on the difference between the prices of $12.50 and $17.50 plus any premium that one might care to pay against the chance that the shares would sell higher than $22.50 in 1947.

Textron Inc. was formerly known as Atlantic Rayon Co., which in turn was previously known as Franklin Rayon. Its chief business is the purchase, process and sale of rayon fabrics and gains from operations since 1940 have been substantial. In 1940 operations showed a deficit of 14 cents per common share while the profits reached $2.23 per share at the end of 1943. If one were to estimate the value of the common stock at only ten times earnings then it would figure to be worth over $22.00 per share. Capital structure is moderate being composed of $2,195,000 in bonded debt, $5,076,000 par value of preferred stock and 221,600 shares of common stock.

Sell Schulte Preferred

"Last year I bought some Schulte Pfd. after writing you for information on this company. It has advanced over 50% and has paid me $15.00 per share in dividends while I believe there are still about $5.00 per share of unpaid dividends. As the common is selling about 3½ the prefered ought to be worth about 75 but with so much speculation in the market I am inclined to sell out and take my profit."

—D. R. R., Avalon, N. J.

We are inclined to think it would be a cautious act to accept your profit on the Schulte preferred even though its market action is very good. You may have noticed that the Securities Exchange Commission is planning to conduct an exhaustive investigation into the trading practices in Park & Tilford shares. It so happens that one or two of the firms that were quite active in Park & Tilford were also interested in the Schulte stocks so that some adverse publicity might be forthcoming that might temporarily affect the market action of the Schulte shares. However, it is interesting to note that both Park & Tilford and Schulte stocks have been higher since the proposed investigation was announced which would justify one in assuming that nothing of a serious nature was in prospect. At the same time one cannot measure the public psychology accurately so that it is just as well to take a profit when it is as large as yours. If a sharp decline should occur one can always repurchase the shares when conditions look good while if the price holds up one can forget the situation and hunt for something else.


JANUARY
THE RIGHT TOAST
FOR A BRIGHT NEW YEAR
SCHENLEY

IES